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Report of the
Auditor General
of Canada
to the House of Commons

Matters of Special Importance – 1996
Foreword and Main Points

November 1996



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Auditor General
of Canada
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**Matters of Special Importance – 1996
Foreword and Main Points**



November 1996

This November 1996 Report comprises 19 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my annual Report of 1996 to the House of Commons, to be laid before the House in accordance with the provisions of section 7(3) of the *Auditor General Act*.

A handwritten signature in cursive script, reading "L. Denis Desautels".

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 26 November 1996

Foreword



Report of the Auditor General to the House of Commons for November 1996

Foreword

I am pleased to table the third volume of my 1996 Report. This Foreword is followed by “Matters of Special Importance – 1996” and the Main Points from all of this year’s chapters. In addition, this volume contains 19 chapters, bound separately:

- Federal Debt Management
- Federal Contaminated Sites – Management Information on Environmental Costs and Liabilities
- Materiel Management in the Federal Government
- Systems under Development – Getting Results
- Canada’s Export Promotion Activities
- Canada Infrastructure Works Program – Lessons Learned
- The Canadian Intelligence Community – Control and Accountability
- Agriculture and Agri-Food Canada – The Western Grain Transition Payments Program
- Canadian International Development Agency
 - Phased Follow-up of the Auditor General’s 1993 Report – Phase II
 - Follow-up of the Auditor General’s 1994 Report on Technical Assistance Contributions to Central and Eastern Europe and the Former Soviet Union
- Correctional Service Canada – Reintegration of Offenders
- Canadian Heritage – Parks Canada: Preserving Canada’s Natural Heritage
- Canadian Heritage – Parks Canada: Management of Historic Canals
- Indian and Northern Affairs Canada – Funding Arrangements for First Nations
- National Defence – Support Productivity
- National Defence – Follow-up of the Auditor General’s 1994 Report
- Revenue Canada and Department of Finance – Goods and Services Tax: New Housing Rebate and “Self-Supply”
- Revenue Canada – Enforcing the *Income Tax Act* for Large Corporations
- Follow-up of Recommendations in Previous Reports
- Other Audit Observations

We also issued the first volume of our 1996 Report in May containing 12 chapters, and the second volume in September with 8 chapters.

Foreword (cont'd)

In addition, this year my Office has provided:

- an opinion and observations on the Financial Statements of the Government of Canada
- an auditor's report and observations on the Statement Required under the *Spending Control Act*
- an auditor's report and observations on the Debt Servicing and Reduction Account Statement of Transactions
- 72 audit reports, to the ministers of Crown corporations (as listed in Appendix "E"), the deputy ministers of federal departmental corporations and the governing bodies of other Canadian entities
- an auditor's report and observations on the Financial Statements of the Government of the Yukon Territory
- an auditor's report and observations on the Financial Statements of the Government of the Northwest Territories
- 15 audit reports to the territorial governments concerning their corporations
- 3 audit reports requested by the Minister of Finance
- 3 audit reports to the governing councils of international organizations

Further, in 1996 my Office completed 7 special examinations of Crown corporations, as listed in Appendix "E".

Under Section 11 of the *Auditor General Act*, I may undertake assignments from time to time at the request of the Governor in Council. There were none in 1996.

Matters of Special Importance – 1996

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Matters of Special Importance — 1996

Main Points

1. Each year this chapter draws together issues that I believe are particularly significant. The federal government of today is a government undergoing considerable change. With this change, new issues emerge and some old issues take on new significance.
2. **Better accountability.** My overarching concern this year is accountability. In my first Report as Auditor General in 1991, I considered this one of the most important issues facing government. Changes in the way government operates make it even more pressing now. Good accountability is particularly difficult in the growing number of joint programs and other new service delivery models being introduced — problems illustrated by our audit of the Canada Infrastructure Works program. Agreement is needed on the elements required for good accountability, and these must reflect the changing nature of government, such as the move toward partnerships and joint programs.
3. **Better information for Parliament and Canadians.** One of the elements required for good accountability is better information for Parliament and Canadians, especially information on what has been accomplished with taxpayer dollars. In the past I have been frustrated by the lack of action on this issue. The problem is not technical. It is a question of will — in almost all cases, some sort of results information can be gathered that would improve understanding of program performance. Based on work under way to revamp reporting to Parliament, I am now cautiously optimistic about the chances for progress.
4. Unfortunately, improving information on results has rarely been a high priority. There is sometimes concern that information on results may provide ammunition to critics. Genuine progress depends upon organizations looking beyond this to see public reporting as a valuable tool. In this time of resource restraint and skepticism about government, it is imperative to be able to demonstrate results clearly and convincingly. Even when results are negative, an astute institution publicly acknowledges its weaknesses and explains how it is addressing them.
5. Some jurisdictions have enacted legislation requiring that government provide a full accounting for performance. This is an idea that deserves consideration.
6. The government has adopted many of our past recommendations to improve information on its financial condition, but its efforts should not be regarded as complete. I believe that an important next step is for government to enhance its annual report by incorporating indicators being proposed by the Canadian Institute of Chartered Accountants.
7. Better accountability, including better information for parliamentarians and Canadians, must become a government priority. I intend to contribute wherever possible to improved accountability, through audits and other initiatives, such as assurance on the performance reports of the new Canadian Food Inspection Agency.

Main Points (cont'd)

8. **Better service quality.** The quality of service provided by government matters: the first-hand encounters Canadians have with government services leave lasting impressions. Recent research by others and our examination of government telephone services have found that service quality needs significant improvement. The government has made numerous commitments to improve the management of service quality but progress has been slow and uneven. Most departments have not established service standards or reported their results.

9. **The risks of undermanagement.** Government programs require close management attention and good controls, particularly programs involving large expenditures that can escalate rapidly. Our audit of the Canada Pension Plan - Disability program, and of the Child Tax Benefit and the GST Credit programs, found deficiencies in a number of key administrative controls, creating an undue risk that benefits may be paid to those not eligible. The risks involved are considerable — CPP Disability pays out close to \$3 billion in benefits annually, and child tax benefits and GST credits amount to \$8 billion annually.

10. **Past issues remain.** I comment in this chapter on a number of past issues that are still relevant:

- The need to strengthen the tax system continues to be evident from audits of the past year. Parliamentarians from all parties have encouraged us to maintain our audit emphasis on the performance of the tax system.
- My staff continue to find significant problems in financial management and control.
- Sound project management principles and effective risk management continue to be lacking in information technology projects involving billions of dollars of expenditures. Of four large systems audited this year, only one managed risk effectively. We are encouraged by efforts being taken by the Treasury Board Secretariat to address these problems.
- A deputy ministerial task force examining values and ethics in the federal government has been advocating many of the measures we recommended in our 1995 ethics study — a step toward further strengthening the ethical base within government.
- For administrative decentralization to be successful, accountabilities between the Treasury Board Secretariat and other government organizations need to be clearly articulated.
- Besides the attention that has been given to better policy co-ordination, there is a need for better operational co-ordination, as illustrated by the lack of co-ordination among the partners in the Canadian criminal justice system that we found in our audit of Correctional Service Canada — Reintegration of Offenders.
- I continue to be concerned about the need to streamline the structures and rules that govern how public servants are managed. Some encouraging steps have been taken, but our audit this year of the classification system showed that much remains to be done.

11. **Cost savings opportunities.** I believe that highlighting potential cost savings is one of the most important ways our audits can make a difference, especially in this time of resource restraint. Significant potential savings were noted in our audits of the past year, particularly audits of materiel management, information technology projects, National Defence productivity and CPP Disability.

12. **Establishing the Commissioner of the Environment and Sustainable Development.** In amendments to the *Auditor General Act* last December, we were gratified to be given additional environmental audit responsibilities to complement the environmental audits we have conducted in recent years. I have appointed Mr. Brian Emmett as the Commissioner of the Environment and Sustainable Development and we expect to issue the first of our new annual “green” reports in the first quarter of 1997.

Main Points (cont'd)

13. Further thoughts. I believe it is important not to overlook the aspects of the federal government that are positive. Contrary to what many seem to believe, government often takes action on my Office's findings and recommendations — not always to the extent that we would like, or as quickly, but action all the same. The government has begun taking a more strategic approach to government programs, rethinking matters that were once beyond question.

14. Still, the challenges facing the federal government are many — witness the long list of issues contained in our audits this year, themselves covering only a fraction of government activities. These challenges are made more daunting by the ever-increasing pace of change in society. They will require more concerted effort than has often been evident in the past.

Introduction

15. This chapter each year draws together issues and themes that I consider to be of particular significance. It covers not only the chapters in this volume of my Report, but also our May and September chapters, continuing issues from past years, and matters arising from our annual financial audits and the other initiatives in which we are involved.

16. So, although the list of issues in this chapter may be long, it highlights only a small portion of our work.

17. Again this year, the backdrop for much of my commentary is the theme of change. Welcome or not, changes are happening everywhere in society — from the global economy all the way down to the family structure.

18. The relevance of these changes to my own work is that they are affecting government, often in ways that are not yet entirely clear.

19. Parliamentarians — indeed, all Canadians — expect me to concern myself with how well government is functioning. It is not enough that I focus on current issues; the important matters are often newly emerging issues, or old problems that are taking on new significance.

20. This year, I am highlighting one overarching concern — the need for better accountability, including the need for better information for Parliament and Canadians. Again, this is hardly a new concern, but it is taking on new significance in our changing environment. Before turning to this topic, there are a number of other specific matters that I believe warrant the attention of parliamentarians and other Canadians.

Part I: Specific Issues of Importance

Progress in Government Management, and the Work of the Auditor General

21. A number of analysts have concluded that one of the most important changes in recent years has been a loss of confidence in governments. A recent study by Ekos Research Associates asked Canadians for their views on a number of government services. In every area except health care, most respondents were dissatisfied.

22. Many Canadians probably imagine that I too have a negative view of government, since part of my job as Auditor General is to identify problems. Of course, our audits do uncover problems. We highlight these issues to improve government, not condemn it, because good government is important to all Canadians.

23. Before discussing some of these issues, I think it is important also to recognize the positive, because there is much that government is doing well. To me, one development stands out as particularly significant: the federal government has begun taking a more strategic approach to government programs and services, beginning with the Program Review exercise of 1994. Departments have been rethinking matters that were once beyond question. New fiscal realities have been a major impetus for this type of change.

24. At a more specific level, our audit chapters contain many positive messages. In some cases our conclusions are generally favourable, as on the administrative consolidation of Revenue Canada (Chapter 20, September) and on the implementation of the payment

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process for \$1.2 billion in interim payments under the Western Grain Transition Payments Program (Chapter 28). But even audits that are highly critical contain important messages about areas that are working well. All too often, these get overlooked in the attention given to the negative aspects of our reports.

Action on previous audits

25. It is also important to recognize that government acts on many of our audit findings. It is not true, as some would contend, that government seldom deals with the issues we raise or the recommendations we make.

26. We normally re-examine the situation described in each of our audit chapters within two years to see what improvement has been made. This year, we report the results of such work in Chapter 38 (Follow-up of Recommendations in Previous Reports), and in other chapters throughout our Report. A number of these follow-up audits describe genuine progress in addressing our original audit findings. In the management of food safety, for example, the government has moved to consolidate all federally mandated food inspection and animal and plant health programs into a single food inspection agency, for which legislation has been tabled in the House of Commons.

27. For the past two years in our Part III Estimates (annual budget documents), we have compiled information on the action taken on recommendations of previous reports. In our 1996–97 Estimates, we report on the status of about 600 recommendations from 1989 to 1993. This information is based on only limited monitoring, but it does provide a general indication of the extent to which government has acted on our

recommendations. Our audit staff judged progress to be satisfactory for over 60 percent of those recommendations we were able to follow up. Action is not always as extensive or prompt as we would like, but it represents progress all the same.

28. In considering the many criticisms in this chapter and elsewhere in our reports, I think it is important not to lose sight of the fact that, for the most part, departments consider these criticisms to be constructive and they take steps to deal with the underlying problems.

Parliament plays an important role in improving government management

29. At times, government organizations disagree with our findings. Even when there is no disagreement, departments don't always give audit findings the priority they warrant. In these cases, by exploring and bringing attention to the issues involved, parliamentary scrutiny can make the difference between action and inaction.

30. In recent years, I have been pleased to see a growing interest by parliamentary committees in the work of our Office. In 1995–96, we appeared at 18 hearings of the Public Accounts Committee and at 13 hearings of 9 other committees.

31. As a matter of course, the Public Accounts Committee reviews each of our reports, selecting certain chapters on which to hold hearings. Following hearings, the Committee tables its own reports in the House and the government responds by setting out the action it proposes to take.

32. In this way, the Public Accounts Committee has often been instrumental in prompting government organizations to act. For example, its report after hearings on our 1993 program evaluation chapters

encouraged stronger leadership by the Treasury Board Secretariat and asked our Office to report back on commitments made by the Secretariat during the hearings. As our May 1996 Chapter 3 noted, action to strengthen evaluation has been taken since the hearings, much of which we attribute to the attention given by the Committee.

33. For chapters that were not the subject of hearings, the Public Accounts Committee in recent years has requested progress reports from the responsible departments. This no doubt helps to spur action. This spring, a motion was introduced in the House of Commons by a member of the Committee, calling for the government to introduce legislation requiring all departments and agencies to table a specific response to the Auditor General's reports. It was heartening to see parliamentarians from all parties endorse this motion in a vote on June 18.

34. There are signs, too, that periodic reporting by our Office has begun to contribute to more prompt correction of problems. For example, some of our recommendations in October 1995 for better information about public sector deficits and debt were promptly incorporated by the government into the Budget consultation exercise and further endorsed by the Standing Committee on Finance.

35. Over the years, parliamentary committee reports following our audits have generally supported our conclusions and recommendations, with few exceptions. An unusual situation occurred this year in relation to our observation on an advance ruling that had facilitated the tax-free movement from Canada of assets held in family trusts (Chapter 1, Other Audit Observations, May 1996).

36. Although the September 1996 report of the Standing Committee on Finance expressed the Committee's gratitude "for having directed Parliament's attention to these tax provisions", it did criticize the way we had presented the issue. In particular, the report stated that we had disclosed more information about certain taxpayers than was necessary, although it did not suggest we had breached any laws concerning confidentiality.

37. As Parliament's auditor, I deeply respect the right of parliamentarians to reach their own conclusions about the issues we report. Still, I stand by what we said in the audit report, and I am proud of the quality of the audit work my staff performed. I remain convinced that these were matters on which I have a duty to report to Parliament and that the information we disclosed about the transactions was necessary to inform Parliament properly about the magnitude of the issues involved.

38. I also believe that more recent events confirm my conclusion on the basic taxation issue. On 2 October 1996, the Minister of Finance responded to the Committee's recommendations by announcing changes to the income tax rules designed to close the loophole we had identified. In announcing the changes, the Minister noted that "the Auditor General has done his work as a watchdog." In his comments to the House of Commons on the proposed changes, the Chairman of the Finance Committee stated, "We came down fully and squarely against the type of thing that happened, in terms of trusts being able to take large sums out of this country. We have recommended that in the future that type of provision not be allowed." And in responding to questions in the House of Commons, the Minister of Finance said,

Parliamentary scrutiny can make the difference between action and inaction.

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Elimination of excess inventory could save up to \$1.25 billion annually, according to a 1995 government estimate.

“It is quite important that we understand what has happened here. There was a law in place in 1991, of which certain taxpayers took advantage. The government decided there was a loophole in the law which should be closed.”

39. I do not believe that Parliament intends to have loopholes in the *Income Tax Act*. I do believe that the fact that one existed in 1991 and was used by certain taxpayers to their advantage supports my conclusion that the transactions ruled on circumvented the intent of Parliament.

The potential for cost savings

40. This year, as in past years, we have reported on several areas where departments could achieve significant cost savings. The potential savings are quite substantial:

- Since 1980 we have identified significant problems in the government's materiel management practices and this report confirms that many of these deficiencies still exist (Chapter 23). The elimination of excess inventory held by departments could save up to \$1.25 billion in annual holding costs, according to a 1995 government estimate. Departmental initiatives since 1995 have attempted to reduce excess inventory and address other long-standing deficiencies. If departments do not succeed, hundreds of millions of dollars will be at risk.

- The Treasury Board Secretariat has accepted many of the recommendations we made in last year's Chapter 12 and in Chapter 24 this year for improving the management of information technology projects. The Secretariat recently published its estimate that changing the way large system development projects are managed could help save over \$1 billion in costs on projects worth \$2.7 billion.

- In Chapter 34 we note that National Defence has identified potential

opportunities to save nearly \$200 million annually through productivity improvements. The chapter makes recommendations on how the Department can improve productivity to achieve even greater savings.

- As a result of our audit of Canada Pension Plan Disability operations, reported in September's Chapter 17, we estimated that the exchange between the CPP and other insurers of information on termination of benefits could reduce CPP Disability benefit payments by \$42 million per year.

41. The government has also acted, in some cases, on opportunities identified in past audits:

- Following our 1995 audit, Treasury Board acted quickly to introduce new regulations for charging interest on amounts that are overdue to the Crown. This should encourage better management of non-tax receivables and, we estimate, could save up to \$17 million annually.

- In May's Chapter 6 (Peacekeeping: Foreign Affairs and International Trade Canada) we reported that senior management needed to pay more attention to collecting amounts due from the United Nations. We believe that our audit contributed to raising the priority given to the collection function and that subsequent efforts resulted in an increased cash flow. Eighty-eight per cent of the \$75 million collected from the United Nations in 1995-96 was collected in the second half of the fiscal year, after we began reporting these concerns to management.

42. Besides identifying direct cost savings, audits identify opportunities to use existing resources more wisely. For example, in May we noted in Chapter 9 that, with better risk assessment, Agriculture and Agri-Food Canada could increase the effectiveness of animal and plant health inspections without additional cost. Although these improvements are

obviously beneficial, it may be very difficult to put a dollar value on them. So too, it is often difficult to determine the extent to which our audits contribute to savings compared with steps departmental managers might have taken without our reports. We describe the type of impacts that can result from our work in our Part III Estimates.

43. I believe that highlighting opportunities for cost savings is one of the most important contributions our audits can make. In this time of resource restraint, these opportunities are too important to ignore.

The pace of action must keep up with the pace of events

44. The fact that our audits usually find some deficiencies should not be surprising. In any organization as complex as the federal government, there will always be weaknesses requiring attention. The job of management is a never-ending process of identifying and reacting to current problems and new developments.

45. But the pace of these “new developments” is increasing dramatically. And that means that government organizations must be able to react more quickly, though no less coherently and thoughtfully.

46. The public is pressing for more openness, more consultation and better service and results. Technology is changing rapidly, especially information technology. Capital, labour, markets and knowledge itself increasingly transcend national borders. Fiscal restraint has brought expenditure cuts affecting almost all organizations, some dramatically. Numerous programs are being fundamentally redesigned and new alternatives for service delivery are being adopted. New issues evolve rapidly, and

often cut across a number of government organizations.

47. Dealing with these pressures simultaneously is, as one public servant has put it, “like changing the wiring with the lights on.”

48. In the past the approach to resolving these challenges has often been cautious but rather slow. With the pace of events, this old approach is no longer acceptable.

The Risks of Undermanagement in the CPP Disability Program, and Elsewhere

49. In every government program, there are certain management controls that are essential — without which the risks of failing to achieve value for money are high. If many essential controls are absent or clearly insufficient, I would describe the program as undermanaged, a concern I discussed in this chapter last year. That is our assessment of the state of the Canada Pension Plan Disability program, as reported in September’s Chapter 17 (Canada Pension Plan: Disability).

50. In disability insurance programs, long-term recipients must be reassessed regularly to ensure that they remain eligible. But CPP Disability staff reassess few cases. Adjudicator’s decisions need to be reviewed to ensure that applicants are handled equitably and consistently — but CPP Disability has no such formal and systematic quality control review. And information on cost and case trends is critical — but CPP information systems were of little use in providing early warnings and explanations of why benefit payments tripled in the last decade, now reaching close to \$3 billion annually.

51. With these weaknesses in essential controls, as well as others described in the chapter, the CPP

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The treatment we receive from government employees leaves a lasting impression.

Disability program runs an undue risk of paying benefits to recipients who are no longer eligible, or who never were. In my opinion on the 1995 financial statements of the CPP, I noted that the amount of overpayments in disability pensions could be significantly higher than management's estimate of \$14 million.

Child tax benefits and GST credits

52. The administration of child tax benefits and GST credits (Chapter 19, Revenue Canada: Child Tax Benefit and Goods and Services Tax Credit Programs, September) exhibits similar signs of undermanagement. Until August 1995, Revenue Canada shared responsibility for child tax benefits with Human Resources Development Canada.

53. While the launches of both programs were well managed, we found that the risk of error, fraud and abuse going undetected is high because the current system lacks a number of fundamental checks and balances. Control over enrolment of children for either child tax benefits or GST credits is weak, for example. Unlike other jurisdictions that require a birth certificate or other proof of eligibility, both programs rely almost exclusively on the honour system. In the case of child tax benefits, we noted that thousands of unentitled newborns may have been improperly included on the benefit rolls, meaning that tens of millions of dollars may have been paid out improperly. We were unable to conduct a similar analysis for GST credits but found that overall financial risks may be greater than for child tax benefits.

54. With over \$30 billion spent to date in child tax benefits and GST credits, or some \$8 billion per year, the situation is worrisome. I am encouraged, however, that Revenue Canada has prepared an

action plan that covers many of the observations raised in my Report.

There are many possible reasons for undermanagement

55. The reasons why programs become undermanaged are numerous. Program administration may be under-resourced. This is a greater risk in these times of fiscal restraint. It is one of the reasons why the work of a modern legislative auditor must go beyond looking for “fat” in government administration. Sometimes the issue is underinvestment — not overspending — in program administration.

56. In other cases, administrative resources may be adequate but they may be allocated to less important functions. Or it may simply be that “getting the cheque out” is seen as much more important than getting the cheque out right.

57. Whatever the reasons, these examples illustrate why government services require alert and attentive management, especially when they involve massive expenditures that can quickly escalate. Good management will help ensure that money is available in the future for the programs Canadians value. Undermanagement is not an option — government programs cannot be allowed to run on “auto pilot”.

The Importance of Service Quality

58. Canadians' impressions of government are formed to a great extent by their first-hand encounters with government services. The treatment we receive from government employees — the Customs officer at the airport, the agent on the telephone from Revenue Canada and the employment officer at an employment centre — leaves a lasting impression. Quality of service matters.

59. To examine how service quality is being managed, as reported in September (Chapter 14), we chose the example of telephone service. A significant, and growing, proportion of contacts between Canadians and government is by telephone — 30 million calls completed each year in the six major government telephone services examined in Chapter 14. We examined other specific telephone services in Chapter 19 on the Child Tax Benefit and Goods and Services Tax Credit programs and Chapter 20 on the administrative consolidation of Revenue Canada.

60. To the public, the quality of telephone service comes down to several key things: being able to get through to the service, receiving accurate information and being treated properly.

61. The quality of government telephone service clearly is not providing Canadians with an acceptable level of service. For example, over 90 percent of the tens of millions of calls made last year about child tax benefits and GST credits received a busy signal. Few departments check the accuracy of information that agents give to callers — one department that did found that accuracy of responses is 80 percent at best.

62. Increased automation can help, but it is not the only answer. Government organizations need to understand why so many calls are necessary in the first place and re-engineer operations to reduce the need for Canadians to call government services or, if nothing else, to smooth out peaks in call patterns.

Are departments properly managing service quality?

63. We examined government telephone systems as part of a broader look at whether departments have

appropriate practices to manage service quality (Chapter 14). It is widely accepted in the private and public sectors that organizations must have a clear idea of user expectations, understand the cost implications of different levels of service, set delivery targets, measure actual performance, and use client feedback to determine the best way to improve service.

64. During the 1990s, the government has made repeated commitments to establish service standards and to report performance against these standards. For example, the 1994 Budget committed each government department to set and publish standards by 1995. So far, progress has been slow and uneven, and deadlines have been missed repeatedly.

65. The reason to move forward with service standards is not simply a matter of fulfilling commitments. Service quality in many areas other than telephone services needs to improve.

66. This was the conclusion of recent research conducted for a deputy ministerial task force examining service delivery models. The results were sobering. It found that users of government services put most value on promptness, convenience, receiving an open and candid response, and being able to cut through bureaucracy. In each of these areas, between only one quarter and one half of survey respondents were satisfied — a sizeable expectation gap.

67. Significant improvements will require action on several fronts. Wise investment in information technology would help. Managers need a better understanding of user expectations and levels of satisfaction. Publishing service standards can help ensure that users' expectations are realistic, by giving Canadians a clearer idea of the kind of

One of the few departments that has checked found that accuracy of responses is 80 percent at best.

There is some progress to report, but in most cases I remain concerned that considerable work still needs to be done.

Parliamentarians from all parties have encouraged us to maintain this emphasis on tax issues.

service they can expect. As Chapter 14 describes, there is evidence that taking these steps can improve the satisfaction of service users.

68. As we try to understand Canadians' views about government, we should not underestimate how poor service can damage public attitudes toward government, or how good service quality can improve them.

Previous Challenges Remain

69. A number of issues from past years continue to be very relevant. I have described them in detail in previous reports and I comment briefly here on why they remain matters of special importance. There is some progress to report, but in most cases I remain concerned that considerable work still needs to be done.

Strengthening the tax system

70. The significance of Canada's tax system is self-evident — it is the source of revenue on which government relies to fund programs and to service our accumulated debt. For this reason, the performance and fairness of the tax system and the integrity of the tax base have been a prime focus of our audit work in recent years. Parliamentarians from all parties have encouraged us to maintain this emphasis on tax issues. Tax issues are sometimes difficult and controversial, but I remain committed to this aspect of our audit work.

71. This year we issued six audit chapters and an audit observation dealing with the tax system. Taken together, the audits highlight the need to strengthen and streamline anti-avoidance activities, carry out more and better-targeted audits, and strengthen administrative checks and balances.

72. Given the considerable attention we have paid to the tax system, it is not surprising that we have identified a large number of tax issues. An equally extensive scrutiny of other areas of government might well yield an equally long list of issues. Still, the critical importance of Canada's tax base — the very reason why we continue to devote considerable audit resources to the tax system — makes action on these matters especially important. As we saw in the case of family trusts, our audits can result in significant improvements in the fairness of the tax system. Next year, we will report a comprehensive follow-up of government action taken on tax issues raised in our reports of recent years.

Stronger financial management and control

73. Last year, I said that my staff continued to find significant problems in financial management and control across a broad range of government operations. Other examples have come to light in the past year. For example, a number of chapters note that important decisions were made without adequate cost information and analysis; these include Chapter 5 (The Reform of Classification and Job Evaluation in the Public Service), Chapter 17 (Canada Pension Plan: Disability) and Chapter 32 (Parks Canada: Management of Historic Canals). As described in paragraphs 50 through 54 of this chapter, we found control weaknesses in the CPP Disability program and the Child Tax Benefit and GST Credit programs.

74. These examples raise a more basic question: Just how strong are financial management and financial control in federal government organizations? We have become convinced that departments and central agencies need to assess their internal

financial capabilities more systematically. This includes everything from the basic ability to control assets, revenues, expenditures and liabilities to the ability to generate and use future-oriented financial information to support planning and decision making.

75. We have under way a number of audits of departmental financial management and financial control. In addition, we are working with senior government officials to develop a more effective means of measuring an organization's capability to exercise financial management and financial control. The results of this work will be reported beginning next year.

Managing the risks of information technology

76. For a number of years, we have expressed concern that the significant risks involved in large information technology projects are not being well managed. Our audit last year of four large systems found that only one was managing risk properly. The results of our audit this year of four other large information technology projects were no better — again, only one managed risk effectively and proactively, as we report in Chapter 24.

77. Efforts by the Treasury Board Secretariat in the past year to develop a new framework for managing information technology projects have been moving in the right direction. With, we estimate, over \$5 billion in information technology projects under way or planned, it is critical that the investments in these projects be managed to ensure that the government obtains expected results. We intend to continue to review information technology projects until we are satisfied that the principles of sound project

management and effective risk management have taken hold.

Ethical standards in government

78. In May of 1995, we reported the results of our study of ethics and fraud awareness in government, which concluded that the ethical base of the public service, while strong, required attention. I stressed that ethics need to be discussed openly, difficult as this can be.

79. Some attention has been given to the subject since then. A deputy ministerial task force has been examining values and ethics. In recent months, the task force has been presenting, and consulting widely on, its findings. We are pleased that the task force has been advocating an "ethics regime" much like the ethics framework we proposed in our study.

80. I intend to return to the subject of ethics in future reports.

Administrative decentralization: clarifying the role of central agencies

81. There has been significant decentralization of administrative authority in the past decade, providing managers with much-needed flexibility to deal with rapid change. Last year, I discussed a number of issues that I believe need to be addressed if administrative decentralization is to be successful.

82. Among these issues is the question of how a modern central agency — in particular, the Treasury Board Secretariat — should operate. For example, in our audits we frequently encounter the question: How actively should Treasury Board Secretariat monitor various departmental activities?

83. I am encouraged to see the Secretariat commit, as part of its annual Outlook Document to Parliament, to

Important decisions were made without adequate cost information and analysis.

The results of our audit this year of four large information technology projects were no better than we found in 1995.

Poor information exchange on the background of offenders has created delays, excess costs and unnecessary security risks.

I have seen encouraging progress in financial information — but we should not regard these efforts as complete.

re-examine its activities and to develop “an accountability framework which clearly articulates the relationships and accountabilities between the Secretariat and other government organizations.” If successful, among other things this should help parliamentarians and our Office determine who should be held accountable in specific situations.

Better co-ordination among organizations

84. Canadians expect taxpayer-funded organizations to co-ordinate activities and to work co-operatively.

85. In the past year, we have seen some encouraging signs. I sense a change in attitude in the public service. Senior officials have devoted significant time and energy to the work of task forces dealing with cross-government issues. Senior officials, too, have talked a great deal about the need for better co-ordination, with much of the discussion focussed on the need for better co-ordination of policy development in the federal government.

86. I think they must also work on the need for better co-ordination of operations, and not simply among federal government organizations. The example of Correctional Service Canada — Reintegration of Offenders (Chapter 30) in this Report demonstrates what happens when co-ordination is inadequate: poor information exchange among federal, provincial and municipal governments on the background of offenders and other relevant information has created delays, excess costs and unnecessary security risks.

Renewing the management of human resources

87. I continue to be concerned about the need to streamline the structures and

rules that govern how public servants are managed.

88. I am encouraged by initial efforts to remove the constraints faced by those who manage scientific personnel (Chapter 15). But, as described in May’s Chapter 5, reform of the classification and job evaluation system — which many see as a cornerstone of human resource management — has taken about six years, and still is incomplete. Moreover, we concluded that further opportunities remain to simplify the system.

Part II: Information and Accountability

Creating a Better Appreciation of Government’s Financial Condition

89. One of my continuing priorities as Auditor General has been the quality of financial information that the federal government provides to parliamentarians and Canadians. I have seen encouraging progress — but we should not regard these efforts as complete.

90. I am pleased that our message last year — that it is every bit as important to focus on debt as it is on deficits — has been embraced by others. The Governor of the Bank of Canada and the House of Commons Finance Committee have supported our suggestions, as have a number of other experts in the field. The government itself has indicated that its ratio of debt-to-gross domestic product needs to be reduced.

91. I believe government can continue its progress toward better financial information and, more specifically, further improve the information it provides on its financial condition.

92. A study group assembled by the Canadian Institute of Chartered

Accountants (CICA) has been tasked with developing a framework of indicators to provide insight into the overall financial condition of federal and provincial governments. I chair this group and we anticipate reporting our findings late this year or early in 1997.

93. We have identified three general criteria for assessing the financial condition of governments: the **sustainability** of the debt burden, a government's **flexibility** to raise revenues through taxation (or through borrowing, should it need to), and its **vulnerability** to forces beyond its control. The study group is developing a core set of indicators for each of these three areas.

94. The group has recognized that no set of indicators or benchmarks can provide an unambiguous presentation of financial condition. Judgment will always be involved in forming opinions in this area. But with the information provided by this core set of indicators, views on financial condition should become less subjective.

95. In 1994, the government produced its first succinct annual financial report, incorporating the five indicators we had recommended the previous year. I believe that an important next step is for government to revisit the annual financial report and include the CICA's proposed indicators.

Government Needs to Do More to Account to Parliamentarians and Canadians

96. Information on the debt and deficits has improved in recent years, but the same is not consistently true of other information provided by the federal government. The need to provide better information to parliamentarians and Canadians is one of the most common —

and long-standing — problems we find in our audits. It is also a problem the government has recognized and, as described later, one on which it has begun to act.

97. Before turning to why this problem persists and what needs to be done about it, it is worth explaining why I consider these to be matters of considerable importance.

Restoring confidence in government: why information on results matters

98. The reasons why parliamentarians need good information on results stem from the very essence of our system of democracy: Parliament's role is to hold the government to account. Whether it be for voting on annual spending, reviewing future years' priorities and plans or scrutinizing past performance, parliamentarians need good information on the activities, plans and results of government.

99. Many ordinary Canadians, too, are interested in this information. As voters, they hold the government to account. And, as taxpayers, they want to know what they are getting for their tax dollars. A recent study by Ekos Research Associates found that the item most often cited by Canadians for improving governance was "accountability for measured results and effectiveness".

100. The results that matter to Canadians are those outcomes of government programs that affect their lives and conditions, such as economic growth and jobs created, the state of the environment, the fairness and equity they receive through regulation and administrative procedures, the level of service they get when dealing with government and the government's financial condition.

The most compelling reason to improve reporting is public skepticism about the effectiveness of government services.

Even when results are negative, an astute institution acknowledges its weaknesses and explains how it is addressing them.

101. Canadians interested in public affairs want information with which to form considered opinions on current issues. Where government has provided good information to Canadians, I think public debate has been enhanced. Two examples come to mind. As noted earlier, improved debt and deficit information in recent years has helped give Canadians a better appreciation of the government's financial condition. Much the same is true about the debate following the release of the government's discussion paper, "Improving Social Security in Canada", for which the government distributed a great deal of background analysis by independent researchers.

102. Knowledge about government is low. Many Canadians know little about government. Another study by Ekos Research Associates found that interest in and knowledge about government and politics among Canadians was low, and that negative views about government were strongest among the least informed. This, too, is cause for government to do more to explain its activities.

103. These reasons for improved reporting are not new. What is relatively new — and what to me is perhaps the most compelling reason to improve reporting — is the level of public skepticism about the effectiveness of government services. In the absence of credible information on program results, many Canadians no doubt imagine the worst.

104. In Chapter 29 we report on one government organization that has been attempting to improve the information it provides on results — the Canadian International Development Agency (CIDA).

Dealing with public perceptions of government: the case of CIDA

105. As noted in *Canada in the World*, the government's foreign policy statement, "Canadians want to be sure that their aid dollars are being used effectively, that their help is making a difference in the lives of people benefiting from Canadian assistance..." But studies show Canadians becoming more and more skeptical about whether aid is indeed achieving results.

106. At the same time, CIDA — the organization responsible for delivering Canada's Official Development Assistance program — has been attempting to reorient its management culture toward the achievement and reporting of results.

107. In this Report (Chapter 29), we comment that the Agency has given this considerable attention, and that a results orientation has emerged within the Agency. But progress has been slower than either CIDA or we had expected. The Agency readily acknowledges that a great deal remains to be done. We are continuing to work with the Agency to deal with the challenges it faces.

108. It is risky to be unable to demonstrate results. The reason for CIDA to move ahead with courage and determination is not simply to satisfy the demands of Parliament or our Office. In this time of resource restraint and skepticism about government, it is risky indeed to be unable to demonstrate results clearly and convincingly. The public does not see CIDA's accomplishments, and will not, until sound reporting of results is in place. Instead, the public hears mainly about problem cases.

109. Whether the subject is development assistance or any other government service, credible information on results is a critical tool. Even when

results are negative — and the complex nature of public policy almost ensures that all will not be positive — an astute institution acknowledges its weaknesses and the risks it faces and explains how it is addressing them. Openness and candor about difficulties often leave little ammunition for critics, and reassure the public that the institution is seeking to improve the situation.

110. By doing this, institutions build public trust. That, ultimately, is why information on results matters.

What needs to be done: thoughtful, not indiscriminate, information on results

111. Some argue that measurement of performance in government is impossible. I disagree. But the disagreement might be more over what is meant by measurement than over something more fundamental.

112. For many, “measurement” means trying to determine the precise magnitude of things. Our Office sees “measurement” more broadly, as the gathering of relevant information to enhance understanding about what a program is accomplishing.

113. **Almost always, some sort of measurement is possible.** In some cases, we can measure actual performance in quantitative terms, but sometimes “softer” measurement tools such as users’ views on performance have to suffice. Not everything can or should be described by a number. We need to be astute in deciding what to measure and when. A high degree of precision is costly and not always warranted; cost and precision must be balanced. If measurement is done sensibly, the benefits will outweigh the costs.

114. For these reasons, measurement will often suggest rather than prove the level of performance. This is acceptable as long as users are informed of the

limitations, which existing government reports commonly fail to do.

115. Measurement does not replace judgments on the value of programs; it allows officials, ministers, parliamentarians and other Canadians in general to make value judgments based on better evidence than would otherwise be available. This is especially important at a time when major decisions are being made throughout all levels of government to restructure services.

116. And since each of us may value different aspects of performance differently, we may very well arrive at different assessments of the performance achieved. Measurement does its job by enlightening — not ending — debate on the issues of the day.

Recent efforts show promise

117. Although inadequacies in the reporting of results have persisted for many years, there have been encouraging developments in the last year. In the past I have been frustrated by the lack of action; now I am cautiously optimistic about the chances for progress.

118. Following concerns expressed by our Office, and by the 1979 Royal Commission on Financial Management and Accountability (the Lambert Commission), reporting to Parliament on departmental spending was significantly improved in the early 1980s with the introduction of Part III of the Estimates. In 1992, our Office completed a review of this departmental reporting. Our Report echoed the frustration of many parliamentarians and public servants with existing departmental reports. We made a series of recommendations to make the reporting more useful.

119. Action on our 1992 Report was slow, but important steps have been taken

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in the past year. Reporting in the Estimates is being revamped as part of a broader effort to revise the government's Expenditure Management System.

120. On a number of occasions, I have expressed my support for this initiative and the direction it is taking. The key question is whether good ideas can be translated into good practice. Although early pilots show some improvements over previous departmental reporting, they still have a long way to go to equal the reports of public sector organizations in some other jurisdictions, such as the Province of Alberta.

Progress has been hindered by insufficient will

121. Current efforts to improve the reporting of results are likely to succeed only if we understand why deficiencies have persisted for so long. Work under way in our Office is looking at this question. At this time, let me suggest some initial explanations.

122. Rarely a high priority. First, progress has been slow because improving information on results has rarely been a high priority. Had it been among the top priorities of governments, we would have seen marked progress long ago.

123. Better public information does not become a priority on its own. Few in government disagree that parliamentarians and Canadians deserve to be better informed about government. But there is no lack of other priorities that compete for attention.

124. If parliamentarians and interested groups want to be better informed about government, then they must clearly and consistently demonstrate that they consider this a priority. Several years ago, the senior government official charged with improving departmental reporting

said he found it like pushing on a rope: what he needed was a stronger demand by parliamentarians and the public. In jurisdictions with good accountability reporting, political leaders often have been the driving force.

125. The other, and perhaps more important, reason why progress has been slow is rooted in the attitudes of government officials. The reporting of results is often seen as nothing more than giving ammunition to critics. This view needs to be challenged and changed.

126. Leadership is needed to make results measurement an integral part of organizations. Providing information on results should not be left only to program evaluators and other measurement specialists; each manager should regularly report results up through the management hierarchy to the minister and finally to those outside the organization. Reporting results must be seen as a way of demonstrating what has been accomplished and what has been learned.

127. Is it time for a legislative solution? Some jurisdictions — the United States, New Zealand, Western Australia, Alberta and others — have enacted, or are considering, legislation requiring that government provide a full accounting of performance. A broadly similar requirement has been in place for federal Crown corporations since 1984.

128. The idea of enacting such legislation deserves consideration. Not only would it limit the ability of government to avoid accountability reporting, it would also allow Parliament to demonstrate the importance it attaches to this reporting. It would be a requirement that would continue notwithstanding political or administrative change. The idea is one that parliamentarians may wish to explore.

129. Still, it should be possible to make strides in accountability reporting without resorting to legislation. And, even with legislation, success will require the genuine commitment of government officials to provide meaningful and solid accountability information. There is a risk of arming critics, but in the face of skepticism about government institutions, the bigger risk is to fail to demonstrate the results being achieved with taxpayer dollars.

Government Change Means that Accountability, Too, Must Change

130. Informing parliamentarians and Canadians about what is being achieved with taxpayers' dollars — the subject of the preceding section — is only part of the broader issue of accountability in government.

131. Accountability is not a new issue to me. Within a short time of becoming Auditor General in 1991, I became convinced that the need for better accountability was one of the most pressing issues facing the federal government. That fall, in my first Report, I observed that accountability was often talked about in Ottawa but that its practice was much less evident.

132. The changes that government is undergoing bring many of these challenges to the forefront. I am convinced, more than ever, that real advances in accountability are needed. I am heartened by recent discussions with senior public servants that indicate they share this view. However, better accountability has not been prominent among the government's stated priorities for the public service.

Why accountability matters

133. I see accountability as a corrective mechanism, much like a course correction system on an aircraft. When accountability in public institutions is working well, problems that arise from time to time are identified — either by the institution itself or by parliamentary or public scrutiny — honestly acknowledged and quickly corrected. Too often, Canadians perceive this accountability to be lacking.

134. If we are to make real progress toward better accountability, effort is needed in two areas. We need a clear, updated vision of what good accountability involves. Then we need to apply it in practice. Our Office has been working actively in both areas.

What modern accountability involves

135. From what we have learned in audits of accountability arrangements, we have identified a set of five key elements without which accountability is significantly weakened:

- clear roles and responsibilities;
- clear objectives and performance expectations;
- performance expectations that are balanced with the capacities (authorities, skills and resources) of each party;
- the reporting of credible and timely information on what was achieved and what was learned; and
- informed review and feedback on the performance achieved, in which achievements are recognized and necessary corrections made.

136. Expanding beyond accountability for compliance and toward accountability for results requires different expectations for the accountability relationship. The results sought in the public sector are

I am convinced, more than ever, that real advances in accountability are needed. Senior public servants indicate they share this view.

It may be unfair to hold officials responsible for achieving results that are significantly beyond their control.

With a number of parties involved, accountability can become diffused.

frequently difficult to achieve. In many cases, it may be unfair to hold officials responsible for achieving results that are significantly beyond their control. But it is fair in all cases to hold officials accountable for doing everything possible to maximize the chances that desired results will be achieved, while still adhering to due process.

137. The above-noted elements are essential to, but not enough for, effective accountability. Significant cultural change is also required. There needs to be a supporting set of values in play that encourages honesty and integrity. People need to stand up and take responsibility for their actions and decisions — for what they have and haven't accomplished.

138. Key to bringing about this cultural change are the ministers to whom the public service reports. They need to show leadership and support for a results-focussed public service, and be willing to learn when things do not go as well as expected. Further, as a result of moves toward greater autonomy in the public service (for example, with alternative delivery arrangements), there is pressure to define more precisely the accountabilities of the public servants who head government organizations. In some instances, traditional aspects of ministerial accountability are being challenged.

The challenge of accountability in joint programs: lessons from the Infrastructure Works program and from First Nations

139. A modern concept of accountability must also reflect the increasing involvement of other parties in the delivery of federal government services. In some cases, these joint arrangements are similar to partnerships, as with many federal-provincial arrangements. In other cases, they involve

third parties in service delivery, such as CIDA's use of independent agents to deliver development services.

140. These joint arrangements can bring many benefits, with each party contributing its own expertise and perspective. But with a number of parties involved, accountability can become diffused — a concern I have expressed before.

141. **The case of the Canada Infrastructure Works program.** The Infrastructure Works program, reported in Chapter 26, is perhaps the most visible new federal-provincial program in recent years. Expenditures by various levels of government will exceed \$6 billion, with \$2 billion funded by the federal government and the remainder by provincial and municipal governments and other project proponents. These are sizeable amounts. The program is important, too, because it has been seen as a model for future federal-provincial programs, and may itself be extended or renewed.

142. The program exemplifies the central accountability challenge of partnership programs: when the federal government relies on others for the day-to-day running of a program it helps to fund, for what exactly is it accountable? And how can it ensure that it meets these accountability obligations?

143. The answer seems clear to me: the federal government is responsible for ensuring that an administrative framework is established incorporating the five key elements (paragraph 135), that these arrangements are properly implemented, and that credible information on results is reported to Parliament.

144. As the chapter describes, we found that the administrative framework worked well in a number of important

respects. We also identified areas where improvements are required. For example, in most cases there were weaknesses in procedures to ensure that the program would "make a difference" by triggering infrastructure investments over and above those that would have been made in its absence. We estimate that as much as one third of the program's spending in 1994 did not lead to additional infrastructure investment. However, in some regions of the country, arrangements were in place that had the potential to produce better results.

145. The federal-provincial agreements that provided the primary administrative framework for the program were not clear about requirements for ongoing performance information or compliance audits. We found little or no monitoring of operational performance in practice. Similarly, timely audits to verify compliance with program terms and conditions were not being carried out in all provinces. Such feedback is essential where the federal government is relying on others to undertake program implementation.

146. Job creation results reported to Parliament did not always address limitations arising from the estimating methods used, or point to possible shortfalls in the program's additional investment effects. An evaluation of the program, addressing a number of key issues of program design and impact, was completed in time to provide input to decisions on future directions. However, it did not address adequately the program's success in stimulating additional investment.

147. If the Canada Infrastructure Works program is to be renewed or extended — or if other similar programs are to be established — it will be important to heed the lessons learned from

the present program so as to establish a more effective accountability regime.

148. How First Nations view accountability. Another important lesson about the accountability challenges in partnerships is suggested in September's Chapter 13. Traditionally, in hierarchical arrangements, accountability has been designed to serve merely the party delegating responsibility. The First Nations that participated in our study believe that accountability mechanisms should serve both parties; that, for example, systems to provide information from First Nations to government and Parliament should be designed also to meet the information needs of the leaders and people of First Nations.

149. This sounds like a sensible approach to partnerships in general. If all sides are well served by accountability mechanisms, the relationship is more likely to be effective.

150. In the case of First Nations, funding arrangements — the mechanism by which Indian and Northern Affairs Canada formalizes its financial relationship with First Nations — are short of this ideal. Chapter 33 in this Report notes that the Department is moving to introduce new funding arrangements that it maintains will address the accountability deficiencies and others evident in existing arrangements. We found that the new funding arrangements have many similarities to previous ones, and we remain concerned that the new arrangements may not significantly improve the situation. We are encouraged, however, that the Department is identifying needed improvements to the new funding arrangements as it proceeds with their implementation. In doing so, the Department needs to collaborate further with First Nations.

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Traditionally, accountability has been designed to serve merely the party delegating responsibility.

Nothing would improve accountability more than if organizations themselves reported on value for money.

If federal organizations are willing to develop good performance reporting, then I am willing to consider providing some form of assurance on the information they present.

Improving accountability in practice

151. Good ideas about accountability are valuable only if they are put into practice.

152. The structural changes under way in government create not only the need for better accountability but also ample opportunity to apply new mechanisms and determine which ones work best. The government is indeed looking at different ways to ensure accountability in new service delivery arrangements.

153. Our Office, too, has been involved in a number of initiatives to help improve accountability in practice. We have examined accountability in specific audits and recommended ways to improve accountability arrangements. A notable example in this Report is our audit of the accountability and control of Canada's security intelligence and foreign intelligence activities (Chapter 27), which identifies opportunities to strengthen further the accountability arrangements already in place.

154. We have also been working directly with government organizations to improve accountability. In a project launched this past year, we have been providing suggestions to a number of Crown corporations on how to develop and use performance indicators. And, throughout the development of the government's new Expenditure Management System, we have provided suggestions and critiques to central agencies and parliamentary committees.

155. Our role in assessing performance information. In our work with CIDA, and elsewhere, we have encouraged federal organizations to assess their own performance and to report on the progress, results and value achieved for money spent. Nothing would improve

accountability more than if organizations themselves reported on value for money.

156. If federal organizations are willing to develop good performance reporting, then I am willing to consider providing some form of assurance on the information they present. Under draft legislation now before the House of Commons, I would be providing such an assessment for the new Canadian Food Inspection Agency being established.

157. I will continue to press the need for better accountability, and contribute wherever possible to its achievement.

Part III: Matters Affecting Our Office

The Commissioner of the Environment and Sustainable Development: A Status Report

158. Over the past decade, our Office has become more and more active in environmental issues and has done pioneering work in the application of audit principles to the environment. An example of this work is our review of federal contaminated sites in Chapter 22 of this Report.

159. Now, with amendments to the *Auditor General Act* in December 1995, come important changes in the way the environment is treated by departments and by our Office.

160. Each department is required to prepare a sustainable development strategy and action plan that will explicitly describe how it has made trade-offs among policy objectives. Each department will also specify how it will carry out its activities in a way that minimizes their impact on the environment.

161. The amendments charge me with determining whether funds voted to departments by Parliament are spent with due regard to the impact on the environment and on sustainable development. This codifies much of the type of work we have been doing in the past decade. The amendments also create the position of Commissioner of the Environment and Sustainable Development, who will monitor departmental sustainable development strategies and action plans; will track the response by ministers to petitions from Canadians on environmental issues; and will prepare a “green” report to Parliament each year on the government’s performance with respect to the environment and sustainable development.

162. The first Commissioner of the Environment and Sustainable Development, Mr. Brian Emmett, took up his duties on July 22, and further staffing is under way to make sure the right resources are in place to do the job. We intend to present the first green report to Parliament in the first quarter of 1997.

Part IV: Conclusion

163. In this chapter, I have discussed a number of issues I consider to be of particular importance, all of which are affected to some degree by the changes government is undergoing. Notable among them is the need to control the risks of undermanagement, improve the quality of service, act on opportunities for cost savings and generally keep up with the accelerating pace of change. I have noted, too, how events and audit findings this year have reinforced a number of my continuing concerns about the tax system, financial management and control, information technology management, ethics, the role of central agencies,

co-ordination among organizations and human resource management.

164. Perhaps the most important of these matters is the need for real advances in accountability and reporting to Parliament and the Canadian taxpayer.

165. Many other significant matters are contained in the May and September volumes of my Report, and elsewhere in this volume. Together they make a fairly daunting list of issues, problems and challenges facing the federal government. And yet they are only a partial reflection of the actions needed, since our audit work touches only a fraction of government activities in any one year.

166. These issues often defy simple solutions. In the past, I have described many of them as seemingly intractable — they are not impossible to deal with, but neither are they solved easily.

Ample Reason for Optimism

167. This would seem to be ample reason for pessimism, but I remain optimistic about the ability of government to deal with these challenges.

168. The first reason for optimism is that most of the issues and challenges have been acknowledged by government officials. As a notable example, there is a great deal of congruence between the challenges discussed in the annual reports on the Public Service of Canada by the Clerk of the Privy Council and those raised by our Office.

169. I sense a new openness to change, more than I saw in my early years as Auditor General. Morale in the public service has clearly suffered from uncertainty and expenditure cuts. But when I meet with senior officials of government organizations, I find mostly people who are excited by the opportunities that change brings and who

We intend to present the first “green” report to Parliament in the first quarter of 1997.

We cannot run government by rules, structures and processes alone.

Parliamentarians and ministers have a role to play in putting government management issues on the political agenda.

are acting on them. The task for senior officials is to infuse their staff with this sense of excitement.

170. I see a broader recognition that we cannot run government by rules, structures and processes alone. The less tangible elements of management — the need to provide inspired leadership, build motivation and reinforce sound values — are getting more of the attention they deserve.

We All Must Deal with These Challenges

171. Without action by others, public servants on their own are unlikely to be able to deal with the many challenges facing government.

172. Parliamentarians and ministers have a role to play in putting government management issues on the political agenda. Examples elsewhere are telling: the most impressive improvements in government management and accountability in other jurisdictions have been driven by political leaders.

173. For all Canadians, the challenge is to be fair in our criticisms of government. Criticism can be healthy and constructive, but if blown out of

proportion it can become dangerously self-fulfilling. As Henry Mintzberg, one of Canada's most respected management thinkers, recently remarked, "Societies get the public services they expect. If people believe that government is bumbling and bureaucratic, then that is what it will be. If, in contrast, they recognize public service for the noble calling it is, then they will end up with strong government. And no nation today can afford anything but strong government."

174. I couldn't agree more. By any standards, we are among the most fortunate and blessed of nations. Attempts to measure this with indices and scales merely confirm what we already know in our hearts.

175. And I think, too, in our hearts we know that a great deal of our collective success is the result of fundamentally strong national institutions and good government. In the final analysis, the many challenges we face come down to this: reacting promptly and wisely to change so that our national institutions remain strong and good government prevails. It is indeed a solemn responsibility. The test of our success will be whether, years from now, our grandchildren too will see their nation as fortunate and blessed.

Main Points

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Other Audit Observations

Chapter 1 – Main Points

1.1 The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

1.2 The “Other Audit Observations” chapter fulfils a special role in the Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

1.3 The chapter normally contains observations concerning departmental expenditures and revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

1.4 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

1.5 Observations reported cover the following:

- the lack of clarity about results expected from a \$7.5 million community adjustment initiative; and
- serious concerns about the administration of the *Income Tax Act* involving the movement out of Canada of at least \$2 billion of assets held in family trusts.



The Implementation of Federal Environmental Stewardship

Assistant Auditor General: Robert R. Lalonde

Responsible Auditor: Wayne Cluskey

Chapter 2 – Main Points

2.1 Since its announcement in the Green Plan (1990), environmental stewardship has been practised by federal departments and agencies. In 1992 the federal Code of Environmental Stewardship provided direction for the “greening” of government operations, which includes the preparation of environmental action plans. While most agencies will continue to operate under the Code, departments as of December 1995 are required to prepare sustainable development strategies and plans for their implementation, following amendments to the *Auditor General Act*.

2.2 A strategic framework for environmental stewardship, laid out in 1991, assigned responsibilities to departments and agencies. However, the program was not implemented as foreseen. This is illustrated by the generally poor response rate of departments and agencies in preparing and updating action plans and providing progress reports.

2.3 As the greening process is now in a period of transition, it is a good time to review progress to date and make any necessary changes to maintain its momentum. In our view, while considerable progress has been made since 1992, there are lessons to be learned from past experiences.

2.4 There is a need for leadership for the greening process both government-wide and within individual departments and agencies. Responsibility for the implementation of the process must be clarified.

2.5 Information management needs to be improved if the process is to remain on track. While Environment Canada, as facilitator, has developed a number of tools including pilot projects, workshops and guidance documents, these have not always reached clients or been tailored to their needs. Furthermore, the opportunity has not been taken to develop a government-wide data bank to be used as an information source for all participants and for aggregate reporting.

2.6 Aggregate reporting provides decision makers with the information necessary to ensure that the greening process is focussed, on schedule and moving toward the goal of sustainable development. In fact, reporting has been selective to date and no true aggregate report has been produced, nor do there appear to be any plans for such aggregate reporting in the future.



Evaluation in the Federal Government

Assistant Auditor General: Maria Barrados
Responsible Auditor: Stan Divorski

Chapter 3 – Main Points

3.1 Government has recognized the need for better information on program results to support decisions and to improve the way government works. Information on the “bottom line” of government programs requires disciplined measurement and analysis of program effectiveness. The need for studies of program effectiveness — commonly referred to as evaluations — is growing as a result of scrutiny being given to government programs.

3.2 A changed environment has created challenges for planning and conducting evaluations. A new Treasury Board review policy recognizes the responsibility of program managers for measuring program performance. The policy also recognizes that effectiveness measurement and analysis can come from a variety of studies, but does not make clear the standards that apply when such measurement and analysis is conducted as part of reviews other than evaluations.

3.3 The choice of evaluation topics in departments reflects decisions based largely on departmental interests and priorities. Evaluations continue to emphasize the needs of departmental managers — focussing on smaller program components and operational matters. These studies can provide valuable support to management. Good government also requires overall program effectiveness information for government decision making and broader accountability. This is not consistently provided. Departments have shown that they can respond to demands for information on the accomplishments of key programs. For example, we found they have made progress in assessing the effectiveness of programs that spend more than \$1 billion annually.

3.4 Departments, with the exception of some smaller ones, have maintained their levels of financial support for evaluation; however, certain key aspects of the management of evaluation in departments have not improved. The scope and quality of evaluations remain matters for concern.

3.5 Government has introduced measures with the potential to improve its planning of evaluation and to support continued progress in evaluating key programs. A renewed expenditure management system requires departments to submit business plans with priorities for reviews of their programs, including evaluations and internal audits. This approach has the potential to link departmental evaluation plans to the budgeting process. In the first year, about two thirds of the plans identified review priorities. However, the system is in the early stages of development. The government still needs to ensure that individual departments’ evaluation priorities reflect government’s evaluation priorities. In order to accomplish this, the government needs to state its evaluation priorities systematically, identify gaps in review activity and ensure that those gaps are filled.

3.6 The President of Treasury Board has submitted to Parliament a report on the performance of government review that is a promising first step. Future reports need to use more concrete measures and provide a more adequate picture of overall government success in measuring and analyzing the effectiveness of programs.



Internal Audit in Departments and Agencies

Assistant Auditor General: David H. Roth
Responsible Auditor: Bruce C. Sloan

Chapter 4 – Main Points

4.1 The government is going through a period of tremendous change, in which departments are being streamlined and restructured in an effort to reduce the administrative cost of government while maintaining or improving the delivery of government programs to Canadians. Although these changes may influence the nature and location of organizational controls, they have not lessened the need for the organization to be in control. Within this environment, the need for effective internal audit has never been more important to ensure that departmental programs and operations are properly managed.

4.2 An effective internal audit unit is a fundamental management tool. It can provide deputy ministers with assurances about the efficiency and effectiveness of key financial, administrative and operational activities and departmental management practices, along with suggestions for improvement.

4.3 The support of senior management is essential if internal audit is to be an effective, contributing part of an organization. To a great extent, the relationship between internal audit and senior management determines the respect internal audit receives from operating managers. We found that, while senior management expressed general support for the internal audit function, its perception of the role of internal audit was narrower than that of senior management in the private sector.

4.4 The Treasury Board Secretariat carries out a number of activities that it believes are designed to further the implementation and monitor the effectiveness of the internal audit policy, one element of the Review Policy. In our view, these efforts have not been sufficient to provide an assessment of the effectiveness of the government's internal audit policy.

4.5 While some internal audit units have improved their performance since 1993, we found that, overall, there has been little improvement since our 1993 audit. Of the seven departmental internal audit units we reviewed in detail, four do not meet established standards for the practice of internal audit.

4.6 We noted that internal audit coverage of computer systems under development has improved. However, further improvement is still needed in other areas if internal audit is to fulfill its potential.

4.7 To fulfill that potential, internal audit must improve the balance of the scope of its work, including both compliance and control issues and the assessment of the efficiency and effectiveness of departmental operations.

4.8 As part of our audit, we assessed the extent to which departments were using appropriate methods and techniques for measuring the effectiveness of their internal audit units — that is, their contribution to improving the way a department operates. We found that in 1993 virtually no audit units were measuring their own performance. However, approximately half of the audit units are now doing so in some way.



The Reform of Classification and Job Evaluation in the Public Service

Assistant Auditor General: Maria Barrados

Responsible Auditor: Jacques Goyer

Chapter 5 – Main Points

5.1 The reform of classification and job evaluation was one of the important systemic changes associated with public service renewal. Because of important links with other systems such as labour relations and pay administration, classification and job evaluation have been considered the “cornerstone” of human resource management in the public service.

5.2 In response to recommendations for change, the Treasury Board Secretariat undertook to develop a single job evaluation plan to replace the some 70 currently in use, and to reduce significantly the number of occupational groups and sub-groups into which jobs are classified. Given the difficult context, this was quite a challenging task.

5.3 Based on our assessment of the June 1995 version of the *Universal Classification Standard*, our audit concluded that, after some six years, the challenge posed by the reform has been only partially met:

- The new job evaluation plan developed by the Secretariat is a definite improvement and has many promising features, but a number of significant issues need to be addressed to ensure that it is a valid and reliable tool, capable of evaluating all jobs in the public service while meeting requirements for pay equity that stem from the *Canadian Human Rights Act*.
- Opportunities exist to simplify further and/or to reduce the costs of classification and job evaluation and some of the related systems and practices, such as pay administration.

5.4 While the Treasury Board Secretariat has undertaken the reform with a commitment to “cost neutrality”, we found that the cost and benefits of the reform were not known with any degree of precision.

5.5 At the conclusion of the audit the Secretariat was taking a number of important measures to address issues identified by the audit. The Standard has potential and can be made to work. Success will depend, however, on the willingness and ability of the stakeholders to work together to achieve the objectives of the reform at a reasonable cost to the taxpayer.



Peacekeeping — Foreign Affairs and International Trade Canada

Assistant Auditor General: Richard B. Fadden
Responsible Auditor: Vinod Sahgal

Chapter 6 – Main Points

6.1 Foreign Affairs and International Trade Canada views peacekeeping as central to Canada's foreign policy objective of protecting Canada's security within a stable global framework. Over the years, Canada has participated in most peacekeeping missions.

6.2 The nature of UN peacekeeping has changed dramatically in the post-Cold War era. Before, the main role of the United Nations (UN) was largely to monitor truce agreements between states. Now, the UN is increasingly called upon to carry out more complex missions that also involve a peace enforcement role both between and within states. As well, a role for civil-military co-ordination and co-operation has emerged.

6.3 The United Nations continues to be the key vehicle for pursuing Canada's global security objectives; however, it faces significant constraints in its ability to carry out its peacekeeping function effectively:

- The UN's management points out that member states collectively have not been prepared to adequately equip the organization to meet the additional challenges, as shown by experience in Somalia, Rwanda, Bosnia and Haiti.
- The Department points out that missions with unclear mandates and inadequate resources are unlikely to succeed, despite improvements in management practices at UN headquarters.
- Unlike Canada, a number of members are not paying their dues on time, with the result that peacekeeping funds are increasingly being used to defray the cost of the regular budget, which is also seriously in arrears.

6.4 Canada places a high priority on reform of the UN, and has worked on several proposals to improve the UN's effectiveness in peacekeeping. However, significant reforms require consensus of the 185-member General Assembly. Consensus on change has proved difficult to find.

6.5 The overall cost of peacekeeping to Canada, both financial and non-financial, is not aggregated in any public document. The financial costs have risen sharply in recent years, as a result of the increase in the number and size of missions, from about \$47 million in 1991–92 to an estimated \$240 million in 1995–96, an increase of 410 percent. The cost of participation in NATO peacekeeping in Bosnia and Canada's recent decision to send troops to Haiti will add to this increase.

6.6 The Department has no established procedure to carry out evaluations or "lessons learned" exercises in the area of peacekeeping from a foreign policy perspective. This increases the risk of not benefiting fully from the experience gained from previous participation.

6.7 Canada has recovered \$236 million of its peacekeeping costs from the UN during the last five years. Reimbursements estimated at \$92 million were receivable at 31 March 1996. The amount and timing of reimbursement recovery is largely dependent on the UN's cash position, the priority Canada gives to the collection function, invoices and supporting documentation and acceptance by the United Nations of amounts billed.

6.8 Informed decision making on peacekeeping matters would be enhanced by greater transparency and accountability. Also, the administration for reimbursements from the UN needs to be strengthened.



Peacekeeping — National Defence

Assistant Auditor General: David Rattray

Responsible Auditor: Peter Kasurak

Chapter 7 – Main Points

7.1 The Canadian Forces have achieved much in their peacekeeping operations and their missions have been marked by individual acts of dedication and bravery.

7.2 The Department of National Defence plans for peacekeeping missions in a fluid environment, often under severe time constraints. It has experienced gaps in its planning for deployments and rotations to missions. The Department, however, has improved its staff system to assess the likelihood of success of the overall mission, to assess the capability of the Canadian Forces to meet the requirements of a mission and to estimate the impact of a deployment on other commitments.

7.3 The Land Forces have retained soldiers in their field force who otherwise would have been cut as part of force reductions. This accounts for 1,600 of the 3,000 extra troops allowed by the government for peacekeeping. Little other increase has occurred to date. Overall, even in the most highly used categories, personnel have not been overtasked for peacekeeping duty. There are still many practical limitations to using the Reserves for peacekeeping.

7.4 Peacekeeping duty in the last few years has revealed serious problems in the Land Force's ability to generate multipurpose forces:

- The Land Force is not completing its collective training plans. Its most comprehensive training exercise was replaced by a much smaller exercise due to peacekeeping-related tasks. Many lower-level exercises planned in the last few years did not take place.
- Significant emergency buys were needed to provide minimum levels of equipment for troops deployed for peacekeeping. In 1995, National Defence concluded that long-standing deficiencies in its armoured vehicles would not allow troops to perform assigned missions within an acceptable level of risk.
- Departmental plans for medical support show that the Department's planned field hospital will not be enough to support the Land Force's operational plans.

7.5 The Department sent \$822 million in supplies and equipment to support the peacekeeping missions we studied. It recorded \$67 million in downward adjustments to stock balances and \$13 million of losses. During our audit, however, the Department could not find a significant portion of the required documentation, and the downward adjustments and losses remain largely unexplained.



Assistant Auditor General: David Rattray
Responsible Auditor: Reno Cyr

Canadian Security Intelligence Service

National Headquarters Building Project

Chapter 8 – Main Points

- 8.1 Since its creation in 1984, the Canadian Security Intelligence Service (CSIS) had needed a headquarters facility separate from its predecessor, the former Royal Canadian Mounted Police Security Service.
- 8.2 The completion of the new national headquarters building in 1995 has allowed CSIS to consolidate its headquarters and Ottawa Regional Office activities from ten separate facilities into one facility.
- 8.3 In our opinion, this project was well managed overall, as the national headquarters project was completed on time and within budget, and meets the functional needs of its users.
- 8.4 There are several success factors or lessons learned in this project that would benefit similar construction projects; one of those factors is the key role played by CSIS as the building's user.
- 8.5 We believe that the project team took appropriate steps to ensure that the completed facility provides a secure environment for CSIS employees and their activities.
- 8.6 The fact that the constructed gross area exceeded the original planned gross area by over 13,000 square metres, without exceeding the approved budget, raises concerns about how project budgets are calculated and about the effectiveness of Treasury Board control over its project approvals.
- 8.7 The redesign of the sixth floor, which was done despite the concerns of the project team and at an additional cost of approximately \$1.4 million, did not, in our opinion, significantly improve the functionality of the building.
- 8.8 We also noted contract prepayments made in advance of work, contrary to the *Financial Administration Act*, as well as inadequate wording in the contract documents for the architect, resulting in reduced accountability and increased costs.
- 8.9 We noted examples where, although no authorities or budgets were exceeded, additional funds could have been saved on this project.



Assistant Auditor General: Don Young
Responsible Auditor: Douglas Timmins

Agriculture and Agri-Food Canada

Animal and Plant Health: Inspection and Regulation

Chapter 9 – Main Points

9.1 Canada's relative freedom from animal diseases and plant pests and its high health standards have contributed significantly to our nation's ability to export annually over \$17 billion of agriculture and forestry products. International recognition of the health status of our domestic plant and animal resources is necessary to maintain access to export markets.

9.2 The changing global agricultural economy has increased the pressure on the Department to allow additional imports, increasing risk to Canada. The Department has responded by assessing the risk of imports and by reacting quickly to threats identified. At the same time, the Department has made extensive efforts to realign its business approach to health protection, while also responding to significant resource reductions.

9.3 The Department has developed a risk assessment process and, as a result, is recognized internationally as a leader in this area. The process provides the Department with a scientific basis to assist in making risk management decisions. Domestic health threats, regulated diseases, weeds and toxic substances have not been and will not be assessed in the foreseeable future, using this analytical tool, unless the emphasis shifts away from import trade-related activities. Consequently, the Department lacks sufficient reliable information to rank threats based on greatest risk, set priorities on a program-wide basis or demonstrate that it has made the best use of its available resources.

9.4 Program objectives have been expressed in measurable terms. However, management has developed few performance indicators or other summary information to allow parliamentarians to understand and assess planned and actual performance and departmental action in response to serious outbreaks of diseases and pests.

9.5 Over 1,100 managers, inspectors and laboratory staff deliver the Animal and Plant Health Program, at a cost of more than \$100 million a year. While the Department has acted on a number of opportunities for cost reduction and cost avoidance, it continues to operate the Program and to plan future activities without rationalizing the need for the existing level of resources.

9.6 Cost recovery has been implemented for some services previously provided without charge and will be expanded to others, to offset significant reductions in program funding. Considering the difficulties associated with maintaining industry competitiveness and international market access, with identifying beneficiaries and with developing a flexible and consultative approach to cost recovery, the Department has made progress over the short term. Our main concern is that the amounts currently being recovered fall at least 60 percent short of the full costs of delivering the service — service of which industry is the primary beneficiary.



Correctional Service Canada

Rehabilitation Programs for Offenders

Assistant Auditor General: Maria Barrados

Responsible Auditor: David Brittain

Chapter 10 – Main Points

10.1 Part of the mandate of Correctional Service is to rehabilitate offenders in its care. Since most of the 14,000 offenders currently incarcerated in federal penitentiaries will eventually be released to the community, many argue that this role is the most important part of the Service's mandate. It is particularly important when one considers that, historically, 28 percent of released offenders committed new offences after release.

10.2 Correctional Service spends approximately seven percent of its \$1 billion annual budget on programs targeted at factors that contribute to criminal behaviour. Traditional programs, such as education, vocational training and prison industries, focus on employability. Since 1988, intervention programs have been the main focus of the rehabilitation efforts of Correctional Service. These programs focus on factors such as sexual deviancy, substance abuse, and antisocial behaviour. Today, Correctional Service has designed an impressive series of intervention programs, some of which have received international recognition.

10.3 We noted weaknesses in the management of the \$34 million spent on intervention programs. The Service spends a disproportionate amount of its intervention program resources on two contracts without any assurance that the right offenders are being treated or any analysis indicating that the results being achieved justify their cost. For instance, 17 percent of the expenditure on sex offender programs is spent to treat 20 offenders, while the remaining 83 percent is spent on 1,800 offenders. For substance abuse programs, 16 percent of the expenditure is spent to treat 100 offenders, while the remaining 84 percent is spent on 5,000 offenders. Another weakness is that the Service has not fully established a continuum of programs to properly support offenders in their transition from the institution to the community. The Service is currently able to meet only 65 percent of demand for relapse prevention programs for sex offenders in the community.

10.4 There are also weaknesses in the management of the Service's traditional programs. CORCAN (the prison industry operation) is the Service's most expensive rehabilitation program, using more than \$100 million in the past four years. CORCAN jobs cost \$13,000 per full-time job in 1994–95, while basic education and vocational training cost about \$7,500 per full-time student. Furthermore, half of the offenders assigned to CORCAN did not necessarily need the skills being offered. Another concern is that over 95 percent of the Service's employability resources are focussed in the institutions, leaving very little to help offenders get a job once they return to the community. The Service does not have a coherent strategy to deal with offender employability. It cannot make the necessary trade-offs for resource allocation.

10.5 Correctional Service is committed to reintegration and has been successful in developing a wide range of intervention programs. However, there is a lack of attention by senior managers to determining the best match of resources to their overall objective of safe reintegration. To achieve this balance, the Service will require better information on the cost and benefits of its rehabilitation programs. Without such information, the Service lacks the capability to strategically reassess and reallocate its investment in rehabilitation programs.



Revenue Canada

Combating Income Tax Avoidance

Assistant Auditor General: Shahid Minto
Responsible Auditor: Barry Elkin

Chapter 11 – Main Points

11.1 The cost of tax avoidance is not known. However, the results of Revenue Canada's program to combat it indicate that avoidance continues to pose a serious threat to the tax base. The Department expects the program to produce about \$365 million in reassessments in 1995–96.

11.2 The Department has undertaken certain specific initiatives to combat and deter tax avoidance. The operations in the district offices we visited have produced significant tax reassessments.

11.3 Preventing avoidance can produce significant tax revenue. Moreover, it is crucial to the integrity of the self-assessment system. Our report has identified areas where opportunities exist to streamline operations and strengthen accountability.



Veterans Affairs Canada

Health Care

Assistant Auditor General: Wm. F. Radburn

Responsible Auditor: John O'Brien

Chapter 12 – Main Points

12.1 Canada fulfills its obligation to its war veterans, in part, through programs offered by Veterans Affairs Canada. The main funded programs of the Department are pensions, economic support and health care. For the last 10 years, health care has been the fastest growing program of Veterans Affairs, increasing in cost by 149 percent over that period because of jurisdictional issues, expanded eligibility for programs, improved benefits and inflation, particularly in the late 1980s.

12.2 The Department has not yet developed a comprehensive plan to meet the future health care needs of its clients for the following reasons:

- It has limited information on its future health care population. There is a significant population of veterans and members of the armed forces who are potential eligible clients and who could be eligible for Veterans Affairs health care benefits.
- The Department does not have a forecast of the likely changes in future health care needs of its client population and the impact of these changes on the Department's programs.

12.3 Veterans Affairs is committed to reducing the turnaround time for first-level approval of pension applications from an average of 18 months to 9 months, within two years. In future, we intend to audit the Department's success in meeting this goal.

12.4 There is a long-standing unresolved issue between Veterans Affairs and some provinces over responsibility for providing certain health care benefits to income-qualified veterans. The Department has identified approximately \$50 million that it is paying annually for these health care benefits.

12.5 In our opinion, the Department has satisfactory controls over eligibility for health care benefits.

12.6 The Department does not have national guidelines for the quality of long-term institutional care. Control over the cost of delivery in contract institutions is deficient, with weak operating agreements, budgets often received after the beginning of the fiscal year and backlogs in conducting operating reviews.

12.7 In implementing changes designed to improve the efficiency of delivery of the Veterans Independence Program, Veterans Affairs did not fully comply with conditions established by Treasury Board that required continuation of a post-payment verification system. We found weaknesses in the health care needs assessment process, also required by Treasury Board. The Department does not have adequate empirical evidence to demonstrate the impact the Program has on recipients' health or on helping recipients live independently in their homes and communities.

12.8 The Department has saved money by implementing controls for the provision of non-drug services to clients. It has also identified the need to improve controls for drug benefits and is in the process of developing a plan to implement these controls in 1997. The Department estimates that it could save \$7 million annually and improve the quality of care by implementing improved controls. In addition, the Department's method of controlling over-the-counter drugs is costly.



Study of Accountability Practices from the Perspective of First Nations

*Assistant Auditor General: Maria Barrados
Responsible Auditor: Ronnie Campbell*

Chapter 13 – Main Points

13.1 As the relationship between the federal government and First Nations evolves, the issue of accountability continues to present difficulties to all parties. In its accountability to Parliament, government is expected to report on activities undertaken and results achieved. This relationship often becomes more complicated where third parties are used to carry out activities for which government remains responsible.

13.2 This study focusses on the perspectives of one set of the parties in such a relationship, the First Nations. It is aimed at improving our understanding and encouraging the pursuit of solutions. The Office intends to build on this understanding and to take into consideration the lessons learned for future audits and studies dealing with the relationship between First Nations and government.

13.3 This study is based on interviews with nine First Nations and one Tribal Council that Indian and Northern Affairs Canada considered to be well managed. Although there is a broad legal framework that governs First Nations' dealings with the federal government, and First Nations have obligations to their own communities, the discussion focussed on First Nations' day-to-day interaction with government departments. Management practices of First Nations and of government that participants felt could be improved were discussed at length.

13.4 Participants recognized the importance of effective accountability and articulated a clear sense of essential accountability factors. For example, participants felt that it is essential that both First Nations and government have clear and commonly held objectives, that audit meet the needs of their communities as well as of government, and that the focus be on results as opposed to process. Taken together, these factors fit within most definitions of accountability. In an area as complex and contentious as this, it is encouraging to see that these First Nations hold views that appear, to some degree, to be consistent with such definitions.

13.5 However, participants strongly emphasized a two-way perspective as an essential ingredient of accountability. Much of what we heard spoke of accountability among partners or equals. Generally, accountability in government is viewed as a hierarchical relationship involving a delegator, who assigns responsibility to another — a delegate. It is evident that there is a significant difference between this concept and the one that participants felt would better suit their needs.

13.6 While participants felt the current situation was unsatisfactory, many were optimistic and felt that progress could be made. They recognized that both they and government officials work under difficult and uncertain circumstances. This study represents one step toward encouraging improved dialogue with government and First Nations as they develop practical approaches to strengthening and clarifying accountability relationships.



Service Quality

Assistant Auditor General: Maria Barrados
Responsible Auditor: Theresa Duk

Chapter 14 – Main Points

14.1 The federal government delivers many services directly to the public, ranging from issuing passports to answering tax enquiries, to processing claims for employment insurance. However, recent studies continue to show that Canadians remain generally dissatisfied with federal services.

14.2 Since 1990, the government has committed itself to establishing service standards and being accountable for the resulting performance. Service standards would clearly specify the quality of service Canadians can expect to receive, including its timeliness, accessibility and accuracy. An original goal of the government's was to have standards published for major services by March 1994 and to report performance in 1994–95. Later, the goal was extended to the end of 1995.

14.3 Our audit of 13 highly visible services revealed that the government's expectations have not been realized. As of 31 March 1996, although many of the 13 services had put in place some elements of the concept, none of them had implemented service standards that met all the requirements.

14.4 Information on clients' priorities is a prerequisite for developing sound service standards and improvement plans. Only about half the services we audited have collected information on client priorities and their relative importance. Even fewer have assessed their clients' satisfaction with the way each of their priorities is served. This knowledge is important; there is little point to investing effort in areas where client priority is low and satisfaction high when there may be a much better return in areas of high priority and low satisfaction. We also found that many services have not determined the full costs of delivering service. Cost information helps to ensure that government clients receive high-quality and affordable services.

14.5 Telephone services are a significant and growing method of contact between Canadians and the government — with more than 30 million calls answered per year in the six operations we examined. However, the quality of government telephone services needs attention. In one department we found that during peak periods as many as 19 out of 20 calls receive a busy signal. Few departments check the accuracy rate of information that agents give to callers — one that has done so found that the accuracy rate falls between 60 and 80 percent. We believe that departments could and should apply service standards to remedy these persistent problems.

14.6 Much in the area of service standards remains to be done, and a sustained effort is required. Deputy ministers need to provide leadership to ensure that departments focus sufficient effort on major services and follow appropriate plans in developing and implementing service standards. So far, little information has been provided to Parliament to indicate clearly the progress against implementation goals. The government needs to improve its reporting to Parliament on this important subject.



Federal Science and Technology Activities: Follow-up

Assistant Auditor General: Robert L. Lalonde

Responsible Auditors: Richard Flageole and Jacques Goyer

Chapter 15 – Main Points

15.1 The federal government released *Science and Technology for the New Century — A Federal Strategy* in March 1996. The *Strategy* was accompanied by departmental action plans and a *Framework for the Human Resources Management of the Federal Science and Technology Community*. These initiatives, aimed at addressing certain government-wide concerns noted in our 1994 Report, represent important steps in the right direction.

15.2 We found that science-based departments and agencies are making good progress in focussing their science and technology activities and setting their priorities. Although priorities at the government-wide level have not been enunciated, a mechanism has been established to make recommendations on them to Cabinet. Furthermore, the *Strategy* provides direction to departments and agencies in the form of operating principles and directions for conducting many aspects of their science and technology activities. The challenge will be to ensure that such principles and directions become an integral part of the day-to-day management of activities in science-based organizations.

15.3 The *Strategy* gives full recognition to the importance of departments and agencies working together and increasing intergovernmental co-operation and co-ordination. Various initiatives are also under way to improve the assessment of the results and impacts of federal science and technology activities, and to report on the growth of Canada's knowledge-based economy.

15.4 The positive features of the *Framework* for managing scientific personnel include consultation with and participation of a significant number of stakeholders, leadership of work groups by line-department officials to maximize commitment and ownership, and clearly stated expectations of results. People interviewed believe that work under way addresses issues of critical importance, and that if recommendations are successfully implemented, the outcome could be the resolution of many of the issues we reported in 1994, such as the systematic renewal of scientific personnel and the maintenance of the skills and knowledge base of research establishments. Other initiatives conducted in parallel to the *Framework*, such as modifications to the Work Force Adjustment Directive, have also had positive effects.

15.5 Although progress is being made, we have some concerns, notably about the absence of a forum to share "best practices" and the little attention given to the issue of performance measures and reporting mechanisms for the management of scientific personnel.

15.6 Although we are encouraged by the progress reflected to date in the *Strategy* and the *Framework*, implementation is the real challenge. For this reason, we believe that the government needs to devote considerable attention to establishing results-oriented, time-phased implementation plans for both the *Strategy* and the *Framework*. The government also needs to ensure that accountability for results is clearly established. Implementation will require leadership and perseverance at all levels of government — from ministers to scientists. Parliamentary oversight also needs to continue.



Assistant Auditor General: David H. Roth
Responsible Auditor: Nancy Cheng

Treasury Board Secretariat

Renewing Government Services Using Information Technology

Chapter 16 – Main Points

16.1 Government expenditures on information technology, including capital, operating, personnel and other related costs, represent a major investment of over \$3 billion annually. Using information technology judiciously is recognized as a prerequisite for renewing government services.

16.2 We examined two sets of initiatives relating to the government's *Blueprint for Renewing Government Services Using Information Technology*. We noted that implementation of the Blueprint framework is starting to gain momentum and that visible progress is being made in moving toward shared administrative systems. At the same time, we also identified several areas for improvement. For example, we noted that the Treasury Board Secretariat focusses on reporting the status of flagship projects but not the results they have achieved. Reporting their results could promote departmental participation and build on the Blueprint's existing momentum. There is a need for more timely development and implementation of government-wide network management to support the sharing and interoperability of systems. We observed some lessons that can be learned in the use of technology funds to encourage partnership and innovative use of information technology.

16.3 There has been significant progress since the establishment of the Chief Informatics Officer function at the Secretariat in 1993. The release of the Blueprint framework in 1994 was a key milestone in the move toward a government-wide perspective of technology. Furthermore, the use of an interdepartmental committee structure and related work groups has encouraged dialogue and fostered co-operation in the information technology and user communities within government.

16.4 Yet many challenges remain. To harness and build on the existing momentum of support for service renewal, the Secretariat needs to exercise corporate governance and accountability through strategic oversight, without jeopardizing the consensus-building process that fosters horizontal co-ordination, and co-operation across departmental lines.



Assistant Auditor General: David Rattray
Responsible Auditor: Louis Lalonde

Human Resources Development Canada

Canada Pension Plan: Disability

Chapter 17 – Main Points

17.1 Our audit examined the adequacy of management practices related to assessing eligibility for Canada Pension Plan (CPP) Disability benefits and measurement and reporting of achievement of objectives. Our observations and recommendations for improvement are reported in this chapter.

17.2 Over the past 10 years, CPP Disability benefit payments have more than tripled, climbing from \$841 million in 1986–87 to close to \$3 billion in 1995–96. The number of beneficiaries has almost doubled over the same period, from 155,000 to 300,000. The increase in Disability payments has had an important impact on the increase in the most recent projected pay-as-you-go rate.

17.3 Important improvements need to be made to management practices related to the eligibility of Disability benefits. Moreover, CPP management does not have complete and relevant data that would enable it to manage eligibility with due regard to economy. We noted that:

- management information systems are limited and do not allow for sound analysis. Variances between actuarial estimates and actual results have not been examined and reported regularly;
- applications are often adjudicated on the basis of information obtained from the applicants and their physicians. No analysis has been carried out to determine at what stage in the process it would be most economical to search for additional information;
- quality control necessary to improve the soundness of disability adjudication is neither formal nor systematic;
- the effect of guidelines on the number and profile of new applications accepted is not determined;
- few beneficiaries are subject to reassessment for assessing continuing eligibility; and
- there is limited exchange of information between the CPP and other disability plans.

17.4 In the last decade, the CPP has faced an unprecedented increase in the number of disability claims, as have other public and private disability plans. CPP administration undertook a study to identify the reasons for the increase, although no quantification was done. Several measures undertaken to respond to the concerns raised in the study were:

- new incentives to reduce barriers to employment of CPP Disability beneficiaries;
- revised Disability determination guidelines;
- improved communication with clients; and
- improvement of the reassessment program.

Chapter 17 – Main Points (cont'd)

CPP management is starting to come to grips with determining more clearly the causes of growth in Disability payments. The number of beneficiaries has declined recently, for the first time in several years. Many of the new initiatives show promise for the future. We commend all those involved for their efforts to improve the situation. It is too early, however, for the Office to comment on the success of these endeavours, as the number of appeals has grown steadily at all levels for the same time period.

17.5 Guidelines introduced over the years have had a significant impact on costs, which are reflected eventually in the long-term projected contribution rate. While legislative changes require estimates of the impact of contribution rates, and formal consultation with the provinces, we are concerned that some important changes to Disability eligibility practices were introduced in the past without proper assessment of projected costs or actuarial impact analysis.

17.6 The actual cost of Disability benefits exceeded actuarial estimates for the period reviewed until 1995. The roles and responsibilities of the CPP and the Chief Actuary of the Office of the Superintendent of Financial Institutions for ensuring the reliability and integrity of the data used for actuarial projections are unclear. Furthermore, we believe that the Department would benefit from having in-house actuarial expertise to improve the exchange of operational and strategic information.

17.7 The Canada Pension Plan was created in 1966 as a mandatory social insurance program to provide some measure of protection to Canadian workers and their families from loss of earnings resulting from retirement or death, as well as from serious and prolonged disability. CPP Disability provides, on average, about half of recipients' incomes; this share is partly due to the fact that some other income providers reduce their benefits by the amount of CPP Disability benefits. This makes the Plan a first payer in most situations.

17.8 There is limited exchange of information between the CPP and provincial plans or private insurers on medical assessment, decisions rendered, rehabilitation, follow-up and termination of payment to beneficiaries who are receiving benefits from more than one of these organizations. However, the Act that governs the disclosure of information considerably limits the exchange of information. Because there is little co-ordination, beneficiaries often provide the same information to several plans, which results in unnecessary duplication of effort and cost. Better co-ordination among the plans would not only improve service but also reduce expenditures for all plans.

17.9 Recent evaluation studies provide useful information about beneficiaries and alternative ways of providing public disability insurance. Overall, the issues and questions addressed by the studies were appropriate and extensive. The evaluation's Interim Report presented a number of proposals for improving adjudication and appeals processes. The fact that CPP Disability does not have precisely defined objectives has hampered the evaluation's measurement of program success. More discussion and clarification of what CPP Disability is expected to accomplish would be desirable. In addition, more information is needed to cover the significant performance information gaps. The Department has yet to take sufficient steps to fill the identified gaps.

17.10 Our audit did not attempt to determine whether the CPP is a better plan than the Quebec Pension Plan (QPP) from the viewpoint of either the beneficiaries or the contributors. CPP legislation requires that comparable benefits be provided by the Canada Pension Plan and the QPP. The legislation allows a province to opt out of the CPP provided that the province sets up a comprehensive pension plan that provides benefits comparable with those provided by the CPP. According to CPP management, changes to both the CPP and QPP over the years have resulted in differences that at times have increased the distinctions and at other times narrowed them. It is therefore important to evaluate the differences between these plans and make adjustments where appropriate. Important differences between the Disability programs of the two plans have been identified, which may explain the increasing disparity between utilization rates.

Chapter 17 – Main Points (cont'd)

17.11 We recognize that determination of disability is a very difficult task. However, every effort should be made to minimize subjectivity in the process. In the context of regionalization, closer monitoring and proper guidance would assist adjudicators in making fair and consistent decisions. Tighter controls on the quality of decisions and greater emphasis on operational controls, such as reassessment, would also reduce the risk of paying benefits to persons no longer eligible. It is important that CPP management have appropriate controls in place to ensure that those, and only those, who are eligible for benefits are accepted and/or continue to receive benefits and that all beneficiaries are treated equitably and in compliance with the legislation.

17.12 We acknowledge that the issues we have raised in this chapter will be difficult to resolve and cannot all be addressed at once. Those involved in administering CPP Disability would benefit from a comprehensive action plan that sets out the accountability, priorities, responsibilities and resources, if required. Such a plan would foster a common mindset on the issues. The number of recommendations proposed implies that additional resources may be required, although the success of many ongoing projects will depend to some extent upon other projects being implemented concurrently. We are convinced, however, that significant savings in program costs can be achieved as a result of additional efforts to improve the administration of CPP Disability and without causing any prejudice to applicants who meet the eligibility criteria of the Plan.



Assistant Auditor General: *Shahid Minto*
Responsible Auditors: *Jim Ralston and Michael Adibe*

Revenue Canada and Department of Finance

Excise Duties and Taxes on Selected Commodities

Chapter 18 – Main Points

18.1 In 1994–95, excise duties and taxes generated some \$6.9 billion, or six percent of gross federal revenue. Of that, 98.4 percent came from the commodities covered in this audit — namely, tobacco, alcohol, motive fuels and jewellery. Various estimates suggest that this excise revenue could have been as much as \$500 million higher were it not for evasion.

18.2 As part of its 1994 anti-smuggling initiative, the government lowered tobacco taxes and increased enforcement resources. Despite the tax reduction and the more vigorous and co-ordinated enforcement efforts of Revenue Canada and the RCMP, evasion of commodity taxes persists. Because of differences in the prices of cigarettes between provinces that lowered their tobacco taxes in response to the federal strategy to combat tobacco smuggling and those that did not, interprovincial smuggling of cigarettes has emerged as a new problem.

18.3 The 1994 Budget Plan forecast that the anti-smuggling initiative would result in a fiscal cost of \$300 million in tobacco tax revenue in 1994–95. Federal revenue from tobacco taxes declined by over \$600 million in 1994–95 compared with 1993–94. Finance's analysis so far has not determined the extent to which this decline is attributable to the reduced tax rate, to evasion or to a change in demand for tobacco products.

18.4 The inherent nature and underlying causes of evasion need to be analyzed more regularly to provide current information to help develop policy and administrative solutions. As well, given the potentially high risk of revenue loss from evasion of motive fuel taxes (which yield the largest amount of federal excise revenue), Revenue Canada and Finance need to systematically assess the extent of fuel tax evasion.

18.5 In the past five years, Revenue Canada has done no excise tax audits of most large licensees (who remit most of the excise taxes) and so risks failing to collect significant amounts of revenue, as audits are statute-barred after four years. The Department recognizes the situation and plans to correct it.

18.6 Revenue Canada maintains high-level aggregate information such as total revenues and number and value of seizures. Finance analyzes the high-level information from Revenue Canada, as well as from Statistics Canada, the RCMP and other sources, to monitor excise revenues. However, Revenue Canada does not on a regular basis collect detailed information needed to monitor, assess and be accountable for its efficiency and effectiveness in administering the commodity taxes and to help Finance's monitoring activities.

18.7 Over the past 21 years, Finance and Revenue Canada have conducted studies and reviews of the *Excise Act*. These reviews have demonstrated the need to revise the Act. The departments are currently doing another joint review. It urgently needs to be completed, as the delay is holding up necessary changes and other desired improvements in the Act and its administration.



Assistant Auditor General: Shahid Minto
Responsible Auditor: Basia Ruta

Revenue Canada

Child Tax Benefit and Goods and Services Tax Credit Programs

Chapter 19 – Main Points

19.1 Revenue Canada administers two key social programs: the Goods and Services Tax Credit and the Child Tax Benefit programs. Both are delivered through the tax system. Prior to September 1995, Revenue Canada administered child tax benefits jointly with Human Resources Development Canada (HRDC). The latter was responsible for determining basic eligibility and Revenue Canada was responsible for all other aspects of the program.

19.2 Each year under these programs about \$8 billion in benefits flows tax-free to over 8 million recipients. Most are families with low or modest incomes.

19.3 Revenue Canada faced a significant challenge to launch the GST credit on time in 1990 and the child tax benefit in 1993, given the short lead times available to meet statutory deadlines. For child tax benefits, the challenge was shared with HRDC. Notwithstanding some important weaknesses in the initial systems, we were impressed with the ability of both departments to publicize the programs and meet the statutory deadlines. Since the programs were launched, millions of families and individuals have been receiving monthly or quarterly social benefit payments. To date, over \$30 billion has been paid out under these programs.

19.4 Revenue Canada has been working to improve service and reduce costs by streamlining its administrative processes. Despite some successes, we have four concerns about the administration of these programs. First, we found that service needs to be substantially improved in some key aspects of delivering the programs, namely in providing access to the Department by phone and in processing child tax benefit applications. Second, the control environment needs to be significantly strengthened to provide reasonable assurance that only those who are eligible receive benefits and receive them in the correct amounts. (This was also the case with HRDC while it had responsibility for determining basic eligibility for child tax benefits, until August 1995.) Third, Revenue Canada has not developed a formal strategy for detecting and preventing fraud and abuse in the programs. Fourth, the Department does not monitor the programs to assess whether the total amount of benefits flowing from each program is reasonable in the aggregate, considering changes in population characteristics and family structure. Our analysis of program statistics against independent data on key variables suggests potentially serious problems that require immediate attention.

19.5 The Department of Finance is responsible for assessing the extent to which program policy is producing the desired outcomes. Despite their social significance and the dollars involved, neither program's performance has been evaluated against its stated objectives. Further, neither program is scheduled for evaluation in Finance's current three-year plan.

19.6 Although child tax benefits and GST credits are key components of Revenue Canada's income redistribution line of business, Parliament receives little information on the Department's performance and priorities in administering the two programs. The little information that is reported in the Department's Part III of the Estimates needs to be strengthened and improved.



Assistant Auditor General: Shahid Minto
Responsible Auditor: Jim Ralston

Revenue Canada

Creating One Revenue Canada: The Administrative Consolidation of Customs and Excise and Taxation

Chapter 20 – Main Points

20.1 Beginning in 1992, the formerly separate departments of Customs and Excise and Taxation were brought together into one department, Revenue Canada. Our audit of the “administrative consolidation” of Revenue Canada selected three aspects on which to judge success:

- corporate management of administrative consolidation;
- the introduction of a single business number for each business client; and
- the opening of “business window” service sites across the country.

20.2 Our examination found there were good practices common to the three aspects that helped make their implementation successful. These included:

- a clear overall vision and principles to guide the process;
- the commitment and involvement of senior management;
- good communication with stakeholders and employees at all levels; and
- good project management.

These practices were particularly important given the special difficulties involved in administrative consolidation, including an uncertain legislative environment and the challenge of combining different work cultures.

20.3 A number of areas still require improvement, including levels of service and classification of staff in the business window activity. The business number project also faces a major challenge in January 1997, when all remaining businesses will be required to convert to the new system.

20.4 Administrative consolidation has been and continues to be a challenging task and, for the most part, it has been well managed by the Department. On the whole, with respect to the aspects we examined, we conclude that administrative consolidation is establishing a solid foundation for:

- streamlined operations;
- improved service; and
- enhanced compliance.

It has also made possible new ways of using and integrating information, both internally and in co-operation with other levels of government.



Federal Debt Management

Assistant Auditor General: R. C. Thompson
Responsible Auditor: Brian Pearce

Chapter 21 – Main Points

21.1 As at 31 March 1995, the Government of Canada reported total liabilities of \$583 billion, of which \$438 billion was borrowed on financial markets. Parliamentarians, and Canadians generally, have a right to expect that this massive debt is being managed professionally and with due regard to value for money. The study reported in this chapter initiates a multi-year examination by our Office of how well the government manages its debt.

21.2 Our study suggests that, in the context of a debt burden that continues to grow rapidly and is already extremely onerous, priority needs to be given to minimizing the risks associated with increases in interest rates. This requires an appropriate balance between short- and long-term debt instruments. Generally speaking, borrowing long-term provides stable but possibly higher interest costs over time; short-term rates may be lower but they are also more volatile.

21.3 We found that the federal government's approach to borrowing on financial markets is comparable with that of other major sovereign borrowers.

21.4 We also observed that the government is developing strengthened risk management policies and procedures to handle market activities that are becoming increasingly complex. As well, in 1992 the government began to evaluate more rigorously the extent to which debt management objectives are being met.

21.5 In future audits, we will monitor progress on these important initiatives and will select other significant debt management activities for more detailed examination.



Federal Contaminated Sites — Management Information on Environmental Costs and Liabilities

*Commissioner of the Environment and
Sustainable Development: Brian Emmett
Responsible Auditors: Wayne Cluskey and Dan Rubenstein*

Chapter 22 – Main Points

22.1 The federal government does not have a complete picture of its environmental risks, costs and liabilities arising from federal contaminated sites. Some estimates place the federal share at \$2 billion, excluding the costs of dealing with radioactive waste. The government is not in a position to adequately assess the risk to health, safety and the environment and to establish the timing and costs for remediation of federal contaminated sites.

22.2 Currently the government does not have a timetable to assemble a complete picture of the extent to which its lands have been contaminated by a variety of pollutants, ranging from unexploded military ordnance to petroleum products.

22.3 Departments are starting to move in the right direction and some progress has been made in the past five years. However, it has been uneven among departments. Based on the current rate of progress reported by 12 departments, it could take them collectively at least another decade to complete the task of identifying, assessing and remediating their contaminated sites. We are concerned that some of the departmental timetables may be overly optimistic.

22.4 There is a need for the government to establish minimum standards of “due diligence” in determining the potential risks posed by the contamination of federal lands and the appropriate remediation required. (Due diligence is a concept in law that activities have been undertaken with the attention and care legally required or generally accepted as appropriate.)

22.5 Cost estimation and periodic reporting on contaminated sites need to be strengthened so that parliamentarians, managers and the public can be provided with a realistic picture of the extent of potential environmental and health risks and costs.

22.6 A more cohesive and coherent central approach to the management of contaminated sites is required across the portfolio of federal lands. Some form of central leadership is required to set out the common practices, protocols and policies needed to ensure that scarce resources are consistently directed to the higher-risk contaminated sites. The unresolved governance dilemma for the government is how it will ensure consistency and coherence without creating new central structures.



Assistant Auditor General: Shahid Minto
Responsible Auditor: Reno Cyr

Matériel Management in the Federal Government

Chapter 23 – Main Points

23.1 The government estimates that more than 17,000 employees are involved in matériel management. They have a direct impact on purchases of more than \$10 billion worth of goods and services annually and on the management of government matériel holdings estimated at more than \$50 billion. The government also conservatively estimates that it holds between \$8 billion and \$10 billion worth of matériel in warehouses, costing between \$2 billion and \$2.5 billion per year to maintain.

23.2 Since 1980 we have identified significant deficiencies in the government's matériel management practices. This audit has confirmed that many of these deficiencies still exist.

23.3 Departmental information systems for managing matériel are generally inadequate. Key deficiencies are the variety and incompatibility of systems, the lack of cost and performance information, and the inadequacy of essential records to safeguard and control public property. The consequence of inadequate cost information is that not all relevant matériel costs, including inventory holding costs, are considered when making purchasing and inventory decisions. This has resulted in poor value for money and excess inventory. A 1996 National Defence study estimated that \$1.7 billion of the total inventory of \$8.55 billion in that department alone was excess to the total usage projected for the next four years.

23.4 We believe the Treasury Board Secretariat does not have all of the information it needs to fulfill its role in monitoring and providing leadership to departments. In our opinion, the essential elements of an effective accountability relationship are missing in the policy and management frameworks for matériel management in departments.

23.5 The use of the Crown Assets Distribution Directorate, a unit of Public Works and Government Services Canada, remains mandatory for the disposal of surplus assets, despite the government's 1992 initiatives to improve the process by allowing departments to use optional methods of disposal. We have identified several examples where departments have done so and obtained higher revenues, more quickly and at less cost.

23.6 Most departments have only recently recognized that there are problems with their matériel management practices and, due in part to reduced resources, have begun to make extensive changes to remedy the deficiencies of the past. A 1995 Treasury Board Secretariat study estimated that, based on certain assumptions, the potential annual cost savings from eliminating unnecessary inventory could reach \$1.25 billion. We noted many departmental initiatives that may have reduced the amount of excess inventory since 1995, but significant potential for savings remains. We are encouraged by the scope and direction of the many departmental initiatives under way. However, it would be too early to attempt to judge their ultimate effectiveness, and we remain concerned about whether these initiatives will be implemented as planned and will achieve their intended goals. If departments do not succeed, hundreds of millions of dollars will be at risk.



Systems under Development: Getting Results

Assistant Auditors General: David Roth and Shahid Minto

Responsible Auditors: Eric Anttila and Hugh McRoberts

Chapter 24 – Main Points

Part I — Key Issues for Success

24.1 To realize the benefits that large information systems promise, risks must be taken but managed effectively. Of the four projects reviewed this year, only one has an effective risk mitigation process in place, although project delays are still expected.

24.2 We concentrated our audit on service delivery systems rather than the mostly administrative systems examined last year and found many of the same problems. We are concerned that investments of some \$3 billion in these projects will not achieve the results targeted by government.

24.3 We focussed our report on six issues we considered key to project success: taking charge of the project, defining requirements, improving software development processes, setting priorities, measuring the status of a project and implementing new government guidelines. Issues of procurement for information technology will be reviewed separately in a later report.

24.4 We estimate cost overruns of \$250 million for expenditures of \$1 billion in two of the projects. There is an urgent need for attention and involvement by senior management in the development of large information technology projects.

24.5 Some scheduled delivery dates have slipped by as much as two years. A major factor is the inability of departments to specify the functional requirements of the system. Given the rapid pace of change, risks are further increased when the government enters into long-term fixed-price contracts with requirements that are essentially ambiguous, poorly defined, or changing frequently.

24.6 Where software development is involved, processes need to be well defined and well managed. Tools exist to aid in identifying and managing risk, sizing the project and assessing the organization's capabilities to deliver the project. They need to be used.

24.7 To overcome schedule slippages, cost overruns and the relaxation of original requirements, it is important for senior management, at the start of the project, to establish clear, realistic and precise priorities for time, cost and requirements, as well as the results to be achieved. These priorities have to be reviewed regularly throughout the project.

24.8 In the projects we reviewed, measurements of project progress were not used or were used ineffectively to determine the status of the project, to support effective management decision making and to report on the project.

24.9 In April 1996, the Treasury Board approved an Enhanced Framework for the Management of Information Technology Projects and, as of June 1996, departments are being directed to comply with its requirements. However, action plans are needed from the departments to apply the Framework to the more than \$5 billion worth of investments in existing and future projects.

Chapter 24 – Main Points (cont'd)

Part II — CAATS: Some Matters of Concern

24.10 One of the projects we reviewed, the Canadian Automated Air Traffic Control System was in difficulty by late 1994. It appeared that the project could not be completed either on time or on budget. Transport Canada changed the Project Director and the reporting relationships to ensure the ongoing involvement of senior departmental management in the remainder of the project. Under this guidance, a rebaselined contract was negotiated.

24.11 Changes to the project resulting from the renegotiation of the contract resulted in an increase in costs to the Crown of \$217 million. In preparing Part III of its Estimates, the Department followed the convention of reporting for Major Crown Projects the following: the effective project approval (\$659 million) and only those additional costs that would be incurred to the end of the main contract (\$75 million). However, in doing this, the information provided suggests that the renegotiated contract was achieved with no material increase in the cost to the project. As a consequence, this presentation results in Parliament not being fully informed of the real cost of the decision to rebaseline the CAATS project.

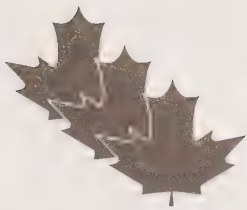
24.12 In renegotiating the contract price, the price was increased by \$73 million, from \$427 million to \$500 million. Our analysis of the documentation prepared to justify the price increase shows that the government has agreed to a contract price of \$500 million on a contract where a consideration of the price of the items removed from the original contract and the cost of the items added would only justify a price of \$282 million. Additionally, in our opinion, the material prepared for consideration by the government in approving the revised contract should have clearly shown that the revised contract price of \$500 million included a component that represented the cost to the Crown of putting the contract in good standing, settling all past differences and disputes among the parties to the contract, and receiving from the contractor a formal release to that effect. While it is not possible to calculate the exact amount, our review of departmental documentation, the price justification and discussion with management leads us to conclude that the settlement cost was approximately \$200 million.

24.13 Prior to rebaselining, the role of the CAATS Project Office in bringing closure to requirements definition was largely responsive. There was no formal plan to ensure that this work was concluded in an orderly and timely fashion. At rebaselining, a significant number of important design issues were unresolved. Since rebaselining, integrated project teams were set up to tackle design issues, most of these have been resolved and the Project Office has initiated formal project monitoring and risk management practices.

24.14 Milestones represent an important control in a project of this size. However, in this project, milestones have acquired considerable flexibility. We are concerned both about past practices in assessing the completeness of milestones and about the apparent practice of renegotiating milestones every time a significant milestone is not met.

24.15 Verification is the set of activities that permits the Project Office to conclude that the delivered system meets the specifications in the contract and is safe for use. CAATS is a safety-critical system and this imposes a higher onus on verification activities.

24.16 We conclude that the Project Office has not established the degree of assurance it needs in terms of either system performance or system safety from its verification activities. In addition, the Project Office is not able to determine the level of assurance it will receive from the activities that it and the prime contractor are and will be carrying out. Extensive testing of the system may aid in gaining assurance that the required functions exist in the system, but it is unlikely to provide adequate assurance of the system's overall safety.



Assistant Auditor General: David Ratray
Responsible Auditor: Lewis Auerbach

Canada's Export Promotion Activities

Foreign Affairs and International Trade, and Industry Canada

Chapter 25 – Main Points

25.1 Export sales are essential to Canada's economic health. Our audit concentrated on the export promotion services of the two departments leading the federal effort — Foreign Affairs and International Trade, and Industry Canada. We concluded that Parliament needs to be better informed about the expenditures, outputs, revenues and cost sharing of this effort. This would help ensure that there is no undesirable overlap, that the distribution of expenditures reflects the government's priorities, and that Parliament is kept informed about the progress being made toward the government's objectives.

25.2 While we were unable to find conclusive evidence about the direct effects of trade promotion, it is possible to measure the cost effectiveness of specific activities. To do this requires information on costs, and systematic, objective measures of the usefulness of specific activities to business, or measures of their impact. However, both departments need better cost information. They need to obtain systematic and objective feedback to determine the value and utility of more of their key activities.

25.3 There are opportunities for other improvements. Trade officers see themselves as adding the most value when they act as brokers and can make useful introductions to possible agents, joint venture partners or distributors. Individual initiative is expected. However, practices vary widely from individual to individual and from diplomatic mission to diplomatic mission. While often appropriate, sometimes this great variety reduces overall efficiency. Wider and more systematic use of practices identified as superior would enhance performance.

25.4 Trade officers also spend a significant proportion of their time on activities they view as relatively unproductive. This is because there are no agreed-upon criteria to determine the kinds and extent of service a user is entitled to receive, a situation that is reinforced by the fact that services are free. The two departments need to decide which are core services available to all and how they will be provided, and which are enhanced services available to those who qualify. With respect to charging for services, our comment to the Public Accounts Committee on our 1986 audit of export promotion is still pertinent today: "Cost recovery would not only increase revenues to the Crown but could provide a measure of the effectiveness of the service." The potential benefits of sharing costs with the private sector and charging fees for service have not been fully realized.

25.5 A key to successful service is the quality and accessibility of the information and intelligence that the government provides to business. This requires appropriate information tools. Despite recent advances, Foreign Affairs and International Trade needs to plan more systematically how it can use these tools to support its promotion of trade.

25.6 In summary, notwithstanding a good reputation for the services it provides abroad, increased globalization and liberalization of trade over the last 10 years, and initiatives already under way in the departments, the federal government needs to further improve its management of, and accountability for, its export promotion and international business development activities. We hope that when we follow up this audit in two years, we will be able to report that there has been substantial progress in dealing with our remaining concerns from 1986 and the more recent ones raised in this chapter.



Canada Infrastructure Works Program: Lessons Learned

*Assistant Auditor General: Maria Barrados
Responsible Auditor: Henno Moenting*

Chapter 26 – Main Points

- 26.1** The Canada Infrastructure Works Program was introduced in 1994 as a \$6 billion cost-shared initiative, with the federal government to contribute up to \$2 billion and provincial and municipal governments and other project proponents the remainder. The program will be in operation until 1998–99. The program's basic approach has a number of advantages and its speedy implementation produced benefits when most needed. Within 24 months, 12,000 projects were approved and more than 60 percent of program funds were spent.
- 26.2** About 60 percent of the funds supported investments in roads, bridges, and water and sewer networks. A further 21 percent were for municipal and other buildings and for engineering and related projects. Finally, 12 percent were for cultural and recreational facilities and 6 percent for education-related projects.
- 26.3** Federal-provincial agreements were quickly established, setting out the program's administrative framework and dividing responsibilities between the federal and provincial governments on the basis of the comparative expertise of each. Because investments in local infrastructure are essentially a provincial/municipal responsibility, the federal government's involvement in, and control over, day-to-day implementation and delivery of the program is limited. Consequently, it needed to set out clearly its intentions for targeting and coverage, along with basic control and accountability requirements for this contributions program.
- 26.4** The agreements set out the central objectives of the program — upgrading infrastructure and creating employment. However, in the program's design we found a lack of clear demarcation of the range of infrastructure eligible for funding; the definition used for "infrastructure" allows for a very broad interpretation. Further, there was a lack of clarity in the criteria for project selection and overall program coverage. For example, we found cases of assistance to firms involved in private sector and quasi-private sector activities such as a ski resort, a golf course, and extending natural gas distribution networks to private consumers.
- 26.5** Most federal files we examined lacked information and analyses to support meaningful review of project proposals by federal officials and to justify approval of projects. In addition, there was insufficient effort by federal officials to verify the quality and completeness of information available at other levels of decision making.
- 26.6** The agreements did not establish a clear requirement for compliance auditing. Except in Quebec, compliance audits were not implemented as quickly as they should have been. Further, federal program managers did not ensure that they would receive adequate ongoing information on the program's implementation and performance. We found also that environmental assessments needed to be strengthened.
- 26.7** The program did result in additional infrastructure investment (and additional employment) in 1994, but likely not to the extent indicated by total program expenditures. We estimate that some 35 percent of program spending during the first year replaced normal capital spending that would have occurred anyway. One consequence is that the additional employment created directly by the program is likely to be less than the 101,000 short-term jobs announced by the government.

Chapter 26 – Main Points (cont'd)

26.8 The federal government, in co-operation with the provinces, completed a timely evaluation of the program that addressed key issues of program design and impact. By publishing its findings in September 1996, the government was able to use feedback on the program as one input for decisions on future directions. The evaluation reported on strengths and weaknesses in the program's design and implementation. However, it did not adequately address the extent of the program's success in triggering additional investment. Nor did it assess impacts on such secondary objectives as environmental quality and worker skills development.



Assistant Auditor General: David Rattray
Responsible Auditor: Henno Moenting

The Canadian Intelligence Community

Control and Accountability

Chapter 27 – Main Points

27.1 “Intelligence” refers to information that, in whole or in part, is not available from conventional sources, such as the print media. It requires having access to information collected by “secret”, or clandestine, means. Intelligence can contribute to informed policy analysis and decision making by the government, particularly in relation to foreign policy, trade and economic policy, defence policy and public safety.

27.2 Since the end of the Cold War, the scope and focus of intelligence activities have changed significantly. In addition to continuing needs for information on long-standing concerns, such as terrorism, the government now requires intelligence on many new issues; for example, the proliferation of weapons of mass destruction, transnational organized crime and economic espionage.

27.3 To obtain intelligence, the government relies on agencies that need the authority to use intrusive techniques and that must do much of their work in secret. Control and accountability arrangements, therefore, are critical from two perspectives: to balance the need to protect and promote national interests with the need to safeguard individual rights and freedoms, and to respond to growing expectations for all government organizations to be efficient and effective.

27.4 Our audit provides an overview of the Canadian intelligence community — those agencies and units that collect, analyze and report security intelligence and foreign intelligence and those that co-ordinate or review their operations. In addition, it informs Parliament about the nature, extent and functioning of control and accountability arrangements in the intelligence community.

27.5 Substantial arrangements for control and accountability are in place, and progress has been made in recent years in strengthening them. Although Parliament’s role is limited by the fact that the activities and performance of intelligence agencies cannot be subject to the same degree of public scrutiny and debate as other government organizations, several bodies external to government do provide scrutiny and review. The government provides direction to the community by setting priorities and co-ordinates its activities through the Privy Council Office. Procedures exist to provide for ministerial control and accountability in significant and sensitive areas of activity, and both the Canadian Security Intelligence Service and the Communications Security Establishment have plans, policies and procedures to guide operational activities. Finally, the Department of Justice plays an important legal control role.

27.6 There are opportunities, however, to improve control and accountability arrangements. Action in such areas, for instance, as strengthening leadership and co-ordination, measuring and monitoring community-wide performance, establishing broad ministerial directions and internal reviews within the departments of National Defence and Foreign Affairs and International Trade, and improving performance measurement in the Canadian Security Intelligence Service and the Communications Security Establishment will help the community respond to challenges arising from the changing intelligence environment, and to growing public expectations for improved control and accountability of all government institutions.



Assistant Auditor General: Don Young
Responsible Auditor: Doug Timmins

Agriculture and Agri-Food Canada

The Western Grain Transition Payments Program

Chapter 28 – Main Points

28.1 The Western Grain Transition Payments Program (the Program) provides \$1.6 billion to Prairie landowners to compensate for the anticipated decline in land values attributable to the termination of the “Crow Benefit” transportation subsidy, effective 1 August 1995. The Program’s design and administration are the responsibility of Agriculture and Agri-Food Canada.

28.2 The decision to end the long-standing subsidy was one component of a significant change in government policy, aimed at reforming the Western grain transportation system. The decision will contribute to fiscal restraint in the longer term by ending the annual “Crow Benefit” of \$560 million.

28.3 The Department was cognizant of problems in the delivery of the Northern Cod Adjustment and Recovery Program (NCARP), which this Office had reported in 1993, and took appropriate steps to avoid repeating them.

28.4 Within 16 months, the Department gathered and processed sufficient data to enable 209,887 landowners to receive an interim payment equal to approximately 71 percent of the total entitlement from the Program. In total, eligible landowners will receive payments of between \$7.25 and \$48.31 per acre, depending on the distance to port and the productivity of their land.

28.5 We found that the payments were calculated pursuant to the Program’s enabling Act and regulations. We also found that the Department made substantial efforts to ensure that the payments were made on a timely basis, given constraints on data availability. In addition, we performed a limited review of the key internal controls governing the payment process. Nothing came to our attention in the course of this review to suggest that there were significant problems with these payments.

28.6 The Department needs to monitor and assess over the long term the direction of changes related to the goal of crop diversification and development of value-added processing industries.



Assistant Auditor General: David Rattray
Responsible Auditor: Vinod Sahgal

Canadian International Development Agency

Part I: Phased Follow-up of the Auditor General's 1993 Report — Phase II

Chapter 29 – Main Points

29.1 In 1993, we reported to Parliament that there was considerable scope to improve the Agency's performance. Our analysis of a sample of bilateral programs and projects showed that in the majority of cases the potential for sustainable benefits from CIDA's expenditures could be questioned.

29.2 CIDA agreed with the thrust of those recommendations aimed at improving the Agency's accountability and strengthening its management effectiveness.

29.3 In 1994, CIDA made a commitment to Parliament to take action on several fronts, as outlined in the CIDA Renewal Plan 1994–1995. This major renewal effort was aimed at transforming the Agency into a more results-oriented, accountable organization.

29.4 A three-phased follow-up approach spanning the three years ending in 1997 was designed to monitor CIDA's effort. An ongoing self-assessment by the Agency on its progress in dealing with concerns raised by the Auditor General was central to this approach.

Our comments on actions reported by CIDA

29.5 **Phase I.** In 1995, we reported that CIDA had focussed its initial efforts on organizing and planning for renewal mainly at its headquarters. The Agency had developed a results-based management concept to strengthen its effectiveness. We pointed out that it would be timely to implement the new headquarters-developed concepts and policies in the field where the results of the Agency's expenditures are expected to be achieved.

29.6 **Phase II.** CIDA is committed to achieving improved reporting and transparency relative to its performance. Changes in its organizational culture will be needed to facilitate the process.

29.7 CIDA has introduced a Policy on Results-Based Management and is implementing it. The Agency has since developed a Framework of Results and Key Success Factors for measuring its results at the project level. It has also identified a set of Assessment Tools to enable the Framework to be used by operating personnel. These are the first of several steps required to build an effective performance measurement system. They begin to respond to our concern that the Agency did not have satisfactory procedures to measure and report on its effectiveness.

29.8 CIDA needs to move ahead with courage and determination if it is to realize practical benefits from the new concepts and policies it has devised. At this time, there is a need to:

- clarify how pursuing objectives at the project level contributes toward achieving objectives at the country program level and, as appropriate, the higher-level objectives specified by the government in *Canada in the World*;
- emphasize the application of the Framework and Assessment Tools for ongoing monitoring of results during the implementation stages of programs and projects;
- further improve reporting on performance; and

Chapter 29 – Main Points (cont'd)

- develop a practical and realistic workplan with a timetable for implementing the System.

29.9 The challenge for the Agency is indeed significant. First, the Bilateral Project Performance Review System for measuring and reporting on results is still in an early stage of development. The System needs to be further developed in consultation with Canadian executing agents and host country institutions and then tested for its suitability by operating personnel in the field. This will take time to implement, given that work on critical aspects, such as the linkage between the information that will be provided by the System and the information reported to Parliament, is not sufficiently advanced. Second, all the key tools needed for strengthening the Agency's management effectiveness and accountability have not yet been fully developed.

29.10 The Agency presented to our Office in October 1996 the status of its progress made toward its renewal, as related to the resolution of concerns raised in our 1993 Report. The scope and timing of our audit work for Phase III will be confirmed subsequently.



Correctional Service Canada – Reintegration of Offenders

Assistant Auditor General: Maria Barrados
Responsible Auditor: David Brittain

Chapter 30 – Main Points

30.1 Correctional Service Canada has two main responsibilities — the incarceration of offenders and their safe reintegration into the community. In 1995–96, reintegration activities involving both the 8,000 offenders being supervised in the community and the 14,500 incarcerated cost nearly \$300 million. The importance of the second part of the mandate of Correctional Service, safe reintegration into the community, is shown by the fact that in the last decade over 70,000 federal offenders were released into the community. In this audit, we looked at the \$79 million spent on the Service's process for making release recommendations to the National Parole Board.

30.2 Lack of co-operation between the federal and provincial governments compromises public safety. Correctional Service has serious difficulties in getting information on offenders from official sources such as police reports, Crown counsel briefs and judges' reasons, despite a statutory requirement to do so. Numerous investigations state that a lack of critical information has been a factor in tragedies involving violent offences by released offenders. Information-sharing agreements are in place with some, but not all, provinces. Where agreements are in place, there are still difficulties with timeliness and availability.

30.3 Correctional Service does not always prepare the casework of offenders in time for their first parole eligibility date. We estimated that in 1995–96 almost no one with a short sentence of two to three years was ready for the first possible parole review. This is not the most effective long-term strategy for ensuring public safety if scarce resources are used to manage low-risk offenders when they could be used to manage higher-risk offenders.

30.4 The work environment of case management officers impairs the quality of parole recommendations. The training and caseload standards of case management officers are inadequate. Correctional officers (guards) are not fulfilling their responsibilities to provide input into the recommendation for parole. Most important, quality control for parole recommendations is not at a level commensurate with the risk the offender presents to society.

30.5 Correctional Service is not managing its reintegration activities effectively. This is the third in a series of chapters that have identified systemic weaknesses in reintegration activities in the Service. All three audits identified serious weaknesses in implementing standardized procedures, developing performance measures and establishing adequate quality control mechanisms. Although Correctional Service has identified problems with the reintegration half of its mandate, it has not been successful at resolving them. We believe that Correctional Service will need to fundamentally rethink the way it approaches the management of reintegration activities, if it is to ensure the long-term safety of the public.



Canadian Heritage — Parks Canada: Preserving Canada's Natural Heritage

Assistant Auditor General: Robert R. Lalonde

Responsible Auditor: Harry A. Ruthnum

Chapter 31 – Main Points

31.1 Parks Canada administers 38 national parks, including two recently established ones, four national marine conservation areas and 131 national historic sites, including nine heritage canals. The system of 38 national parks covers approximately 225,000 square kilometres. In 1994–95, there were over 25 million visitors to the national parks, historic sites and heritage canals. The budget for 1996–97 is \$368 million.

31.2 The March 1996 federal Budget announced the government's intention to create a separate service agency to manage the Parks program. The new agency will manage, and preserve for future generations, a system of national parks, national historic sites and canals and related protected areas for the use and enjoyment of Canadians.

31.3 Overall, there is a need for Parks Canada to improve its knowledge about the state of the natural resources within national parks in order to implement a sound ecosystem-based management approach. This would help ensure that national parks remain or become unimpaired for the enjoyment of future generations, as required by the *National Parks Act*. We noted that:

- in the six national parks we reviewed, Parks Canada's biophysical information was out-of-date or incomplete except for La Mauricie; and
- although monitoring the ecological integrity of the ecosystems in national parks is a high priority according to Parks Canada policies and guidelines, in many national parks the Department has not monitored ecological conditions on a regular, continuing basis.

31.4 We are concerned that initiatives to increase visitation, if not carefully managed, could compromise the ecological integrity of national parks. Furthermore, adding new parks to the national system will put significant pressure on the resources that Parks Canada can allocate to each park to maintain and improve ecological integrity.

31.5 Of the 39 natural regions, 24 are currently represented by a national park. Since 1990, four new national parks have been established, all of which were under way before 1990. Given the rate of progress to date in creating new parks, the national parks system may not be completed as planned by the year 2000.

31.6 A number of candidate sites for national parks remain open to industrial development activities. We are concerned that these activities could harm the ecosystems and wildlife habitat that national parks are trying to protect, and impair their value as wilderness reserves.

31.7 Parks Canada has neither developed an action plan nor established a target date for completing the National Marine Conservation Areas System.



Canadian Heritage – Parks Canada: Management of Historic Canals

Assistant Auditor General: Robert R. Lalonde
Responsible Auditor: Harry A. Ruthnum

Chapter 32 – Main Points

32.1 In recognition of the change from commercial transportation to recreational activities and historic appreciation, the nine historic canals were transferred in the 1970s to Parks Canada. At that time, the government decided that “there should be a shift in emphasis in the management of the canal systems from transportation to historic restoration, preservation and interpretation; natural environment preservation and interpretation and optimum use of federal lands.”

32.2 There is a significant gap between canal revenue and total operating costs. A number of studies have pointed to the need for restructuring and closing that gap; however, little progress has been achieved. Our audit noted that services do not reflect user demand, canals are not restored or operated in the least costly manner, and there has been a lack of success in finding partners to take over canal responsibilities or contribute to their financing.

32.3 Taxpayers are paying the major portion of expenses incurred by Parks Canada to provide a private benefit to boaters. Canal management has stated that it has no intention of increasing boater revenue such that it covers navigation costs, and that it is not possible to do so.

32.4 Navigation serves a very limited and declining market. In a typical year, no more than 1,370 and 2,200 boats navigate the entire Trent–Severn Waterway and Rideau Canal respectively. Although the canals operate for five months, 80 percent of boaters use them during July and August only. Shortening the navigation season would reduce operating costs by approximately 45 percent. In addition, combining a shorter season with the closing of underutilized locks could result in savings of close to \$10 million annually.

32.5 Over the years, the Department of Justice has provided legal opinions on various aspects of the requirement for Parks Canada to provide for navigation. In June 1996, advice was offered which touched on another aspect of the issue. In our view, these opinions do not provide enough guidance on Parks Canada’s obligation to provide for navigation. In light of new fiscal realities, Parks Canada’s obligation with respect to the requirement to provide for navigation needs to be reviewed.

32.6 Parks Canada is seeking authorization from the Treasury Board to reconstruct a recreational lock at Sault Ste. Marie, in partnership with the Province of Ontario and the City of Sault Ste. Marie. Capital costs are estimated at \$28 million over a 30-year period. If a rigorous business case analysis had been performed, continued operation of the historic site and permanent closing of the lock would clearly be the most cost-effective option.



Assistant Auditor General: Don Young
Responsible Auditor: Grant Wilson

Indian and Northern Affairs Canada

Funding Arrangements for First Nations

Chapter 33 – Main Points

33.1 In recent years, annual budgetary expenditures for Indian and Northern Affairs Canada have averaged over \$4 billion. Approximately \$3 billion of these funds are administered and spent by First Nations, tribal councils and other recipients for education, social assistance, infrastructure development and other needs mainly on reserves. This level of funding is expected to continue to at least 1998–99.

33.2 Currently, the Department uses up to six types of funding arrangements or components thereof, through which annual funding is transferred to recipients. Most funding arrangements are in the form of contributions with terms and conditions attached.

33.3 During 1993–94, the Department identified a need to rethink existing funding arrangements to clearly articulate the relationship with First Nations. A new Financial Transfer Arrangement (FTA) is being designed to replace most existing arrangements by 1998–99. The Department's expectations of this new arrangement are to strengthen accountability, better meet community needs, achieve better value for money and encourage other positive impacts.

33.4 The Department has adopted three principles of accountability relating to transparency, disclosure and redress to assist in strengthening accountability. It is proceeding to develop an accountability framework in which First Nations governments are expected to be primarily accountable to their community members. The Department continues to be responsible to Parliament for the way it handles its resources.

33.5 The audit found that:

- ongoing deficiencies in implementation are being encountered in current funding arrangements;
- the Department has not completed its determination of how the new FTA will help address identified problems and achieve the intended improvements;
- up to 65 percent of devolved expenditures in fiscal year 1995–96 were subject to more restrictive funding arrangements. This suggests that there is a considerable way to go to implement the Financial Transfer Arrangement and achieve its benefits within the changing relationships between the parties;
- the Department invited little input from its intended funding recipients when deciding to proceed with the FTA, and First Nations and tribal councils have expressed concerns; and
- the Department has acknowledged the need to address agreed-upon accountability and results expectations and is proceeding accordingly.

33.6 The Department, together with First Nations, tribal councils and other recipients, needs to intensify efforts to resolve the issues encompassing funding arrangements. In so doing, the parties must be able and willing to identify and effectively address the shared risks associated with their evolving relationships, while meeting their respective needs for accountability.



National Defence – Support Productivity

*Assistant Auditor General: David Rattray
Responsible Auditor: Peter Kasurak*

Chapter 34 – Main Points

34.1 Operational units of the Canadian Forces are sustained by a national support system of 29 bases that provide support services, which cost \$2 billion each year to operate.

34.2 The Department is undergoing significant change because of modifications to defence policy and resource reductions in the last three Budgets. It is cutting personnel and closing bases at the same time as it is implementing a management renewal program. These pressures, coupled with efforts to increase the proportion of resources assigned to combat forces, increase the complexity of managing change. Nevertheless, the Department is committed to implementing most major changes between 1994 and 1999.

34.3 At the corporate level the Department's renewal initiatives are under way, but few concrete results are visible yet. Senior officials told us it was still too early to expect their initiatives to have achieved results.

34.4 Senior management wants staff to think of themselves as active, cost-conscious resource managers rather than "resource custodians". Survey data indicate that while most in the Department are receptive to change, the Department will have to overcome significant obstacles to create an empowered, self-starting labour force. It has taken commendable steps to deal with changing values and beliefs, but more needs to be done to educate staff and to provide incentives.

34.5 Most base managers say they cannot get all the cost information they need when they need it. Performance information is lacking on most bases.

34.6 At the working level, we found that productivity improvements were inconsistent. In some cases productivity has declined:

- In spite of some major improvement initiatives, labour productivity in base supply declined 10 percent from 1992–93 to 1995–96 because the level of activity fell more rapidly than the level of supply personnel. Senior officials believe this is only a temporary problem and their efforts will result in overall improvements.
- Kilometres driven per driver by base transportation services varied widely, with drivers at the best-performing bases driving five times more kilometres than those at the lowest-performing bases.
- Vehicle maintenance productivity was lower than in industry. While military requirements may account for part of the difference, the Department has not calculated how much of a difference such requirements make.
- Air maintenance is improving, with millions saved on the DASH-8 aircraft and the CF-18 at Cold Lake. However, improvement appears to have stalled, and bureaucracy, lack of financial responsibility and lack of cost information are still problems.
- The training system's productivity was not competitive with the private sector in 1990 and has become 40 percent less productive since then.

34.7 In order to meet the Minister's goal of producing the defence capabilities described in the 1994 White Paper with 25 percent fewer resources, support productivity must begin to increase now.



National Defence — Follow-up of the Auditor General's 1994 Report

Assistant Auditor General: David Rattray

Responsible Auditor: Peter Kasurak

Chapter 35 – Main Points

35.1 In 1994 we reported on Defence management systems, information technology, infrastructure reductions and infrastructure management. This chapter reports on the progress made by National Defence in addressing our recommendations and those of a subsequent report by the Public Accounts Committee.

35.2 The Department did not put an adequate system in place to ensure that its management responses to our 1994 recommendations were implemented. Because departmental commitments were not adequately monitored, some action plans were not fully implemented.

35.3 Progress has been made in implementing our recommendations on the Defence management systems required to plan, organize, direct and control the defence of Canada, but more remains to be done. For example, the Department has begun to assess and report on the affordability of defence policy, but its assessment is limited to a five-year time frame.

35.4 The Department has made significant progress in implementing our recommendations on information technology. Cost reduction has been a major focus within the Department over the last two years. The Department supports the management approach to information technology projects recommended in our 1994 Report as well as by the Treasury Board Secretariat. However, the completion date of the Strategic Message Switching System (SMSS), which would generate net savings of \$52 million a year, has slipped about 24 months and the Land Force command and control system will not be fully interoperable with the rest of the Department before 2001.

35.5 Significant progress has been made to rationalize infrastructure. The Department appears to be on schedule in implementing its reduction plan. In addition, the process for determining new and replacement infrastructure requirements should improve the timeliness and cost effectiveness of construction projects. Progress has been slow in developing maintenance strategies.

35.6 Progress has been made in implementing our recommendations on infrastructure management. Construction projects are now managed using a revamped organizational structure and attempts are being made to incorporate innovative practices. The full success of this new construction delivery system depends on the successful implementation of business planning at the command and base levels. Almost all of the bases are considering alternative service delivery for their construction engineering functions. However, more remains to be done to eliminate the 10-year maintenance backlog, end operating shortfalls on married quarters, and reach agreement with municipalities on the level of service to be provided for grants in lieu of taxes.



Assistant Auditor General: Shahid Minto
Responsible Auditor: Jim Ralston

Revenue Canada and Department of Finance

Goods and Services Tax — New Housing Rebate and “Self-Supply”

Chapter 36 – Main Points

36.1 The treatment of residential real property transactions under the Goods and Services Tax (GST) is a matter of considerable complexity. This complexity is at the root of much of the non-compliance with the law and of the administrative difficulties that occur in this area.

36.2 Proposed technical amendments related to residential real property that were announced by the government on 23 April 1996 promise to address certain areas where non-compliance or unintended results are occurring. However, administration of the New Housing Rebate program is faced with difficulties that may require legislative change or additional interpretive guidance by Revenue Canada to resolve. A program evaluation of the New Housing Rebate program would provide valuable input for consideration of these matters.

36.3 Revenue Canada directs fairly strong audit efforts toward New Housing Rebate payments for “owner-built” homes, but its efforts directed toward rebates paid for “builder-built” homes are much weaker. While the former rebates are higher-risk, the latter are not free of non-compliance risk and, in total, are far more significant to the federal treasury (\$218 million out of a total of \$303 million in New Housing Rebate payments for the year ended 31 March 1996).

36.4 Revenue Canada’s information systems cannot currently provide much of the information needed to manage the New Housing Rebate program.

36.5 One of Revenue Canada’s Tax Services Offices conducted a successful audit project aimed at non-compliance with the “self-supply” rules pertaining to multiple-unit residential complexes. This project may be worth replicating in other areas of the country.

36.6 There is some concern that a provision of the *Excise Tax Act* that is meant to provide equitable treatment for unincorporated professional builders who construct homes for their personal residences may be used by small-scale builders to build homes for resale in a manner that avoids the GST. While Revenue Canada’s assessments against such builders have, for the most part, been upheld by the Tax Court of Canada, the Department and the Department of Finance continue to monitor the situation.

36.7 Revenue Canada’s policy on voluntary disclosure does not provide a great deal of encouragement for builders who have not complied with the self-supply rules to come forward and bring themselves into compliance.



Assistant Auditor General: *Shahid Minto*
Responsible Auditor: *Barry Elkin*

Revenue Canada

Enforcing the *Income Tax Act* for Large Corporations

Chapter 37 – Main Points

37.1 Revenue Canada's large file program provides a co-ordinated approach to auditing the tax returns of the largest and most complex corporations. The approximately 6,000 corporations within the program pay about 25 percent of total corporate tax revenue, or \$4 billion annually.

37.2 About 300 people deliver the program. Most are auditors located in various Tax Services Offices across the country. Revenue Canada reported that its audit efforts from the program in 1994–95 resulted in \$850 million in additional current federal impact and \$459 million in additional future federal impact.

37.3 The primary objective of Revenue Canada's auditors is to ensure compliance with the laws. Auditors face many challenges in doing their work, including the complexity and changing nature of the legislation, the use of administrative policies to deal with gaps in the legislation and the increasing complexity of business in a global economy.

37.4 In an effort to address some of these challenges and to improve relations with taxpayers, the Minister announced on 6 March 1995 a new approach to auditing large files. The approach is based on a co-operative, open and transparent relationship between the taxpayer and Revenue Canada. It is too early to tell how successful this approach may be, but improving the relationship between Revenue Canada and taxpayers should benefit both parties.

37.5 Selecting the right issues to audit is a primary key to success. Some improvements have been made but more needs to be done to ensure that auditors select those issues that represent the highest risk of non-compliance and to assure management that this is being done.

37.6 Revenue Canada has been auditing returns several years after they are filed; this has caused problems for taxpayers and for the Department's auditors. An initiative has been in place since 1994 to audit returns sooner, and established targets have been largely met. We support this initiative, as we see the benefits for both taxpayers and Revenue Canada. The costs of achieving these targets, in terms of possible missed reassessments, is not known.

37.7 To provide a more complete picture, the published program results need to be supplemented with more information on the actual amounts billed or refunded to taxpayers and with information on subsequent appeals. Revenue Canada does not yet adequately measure the effectiveness of the large file program in meeting its primary objective of enhancing compliance with the tax laws.

37.8 A number of human resource issues — such as gaps between the resources allocated and those used, and difficulties in staffing positions — are creating barriers to achieving better results from the program. As well, there is a need for an environment that fosters learning and continuous improvement in order to encourage the achievement of high-quality results.



Follow-up of Recommendations in Previous Reports

Chapter 38 – Main Points

38.1 Departments are taking action to correct deficiencies noted in our previous reports; however, progress is slow in some areas.

38.2 Federal Management of the Food Safety System. The new Canadian Food Inspection Agency is being created to consolidate all federally mandated food inspection and animal and plant health programs. It is intended to make the federal food inspection programs more efficient and effective, at a lower cost to the taxpayer.

38.3 Safety and inspection practices are not yet risk-based and consistent across products and industries, the frequency of plant inspections remains inconsistent, and frequency targets are often not met. Although this situation does not compromise health and safety, it will persist until common standards are finalized and inspection programs are revised.

38.4 Atomic Energy Control Board (AECB) – Canada's Nuclear Regulator. Recent initiatives undertaken by the AECB represent both a commitment to revitalize the organization and a considerable effort to address our audit concerns. However, much remains to be done.

38.5 The resolution of more than two thirds of our audit concerns is dependent in whole or in part on the outcome of proposed new legislation currently before Parliament. In our opinion, without updated legislation, the AECB remains limited in its ability to fulfill its mandate. However, as noted in our 1994 audit, new legislation by itself will not correct the deficiencies identified in the management processes and practices.



Other Audit Observations

Chapter 39 – Main Points

39.1 The *Auditor General Act* requires the Auditor General to include in his annual Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

39.2 The “Other Audit Observations” chapter fulfills a special role in the annual Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

39.3 The chapter normally contains observations concerning departmental expenditures and/or revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

39.4 Observations reported this year cover the following:

- Atomic Energy of Canada Limited needs to disclose its environmental liabilities in its financial statements.
- National Defence’s new strategic transport fleet will not fulfill all the strategic roles of the fleet it replaces, and maintaining current strategic transport capabilities is costing \$8.5 million.
- Compliance with funding conditions for the Pearson Peacekeeping Centre is lacking.
- Terms of contribution agreements do not protect the government’s interest and may contribute to low collections.

39.5 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

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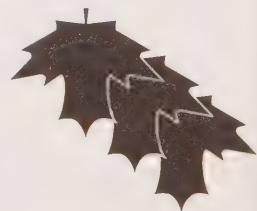
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Chapitre 39 – Points saillants

39.1 La Loi sur le vérificateur général exige du vérificateur général qu'il inclue dans son rapport annuel les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

39.2 Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans le Rapport annuel. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères particuliers, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes du Canada, des états financiers des sociétés d'Etat et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

39.3 Le chapitre renferme habituellement des observations qui se rapportent aux dépenses ou aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers sans souci de l'économie.

39.4 Cette année, nos observations portent sur les sujets suivants :

- Energie atomique du Canada limitée devrait divulguer ses passifs environnementaux dans ses états financiers.
- La nouvelle flotte de transport stratégique de la Défense nationale ne répondra pas à tous les rôles stratégiques de la flotte qu'elle remplace, et le maintien de la capacité actuelle de transport stratégique coûte 8,5 millions de dollars au Ministère.
- Il y a manque de conformité aux conditions de financement du Centre Pearson pour le maintien de la paix.
- Les conditions des accords de contribution ne protègent pas les intérêts du gouvernement et peuvent contribuer aux faibles niveaux de recouvrement.

39.5 Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.



Chapitre 38 – Points saillants

38.1 Les ministères travaillent à combler les lacunes relevées dans nos rapports antérieurs. Les progrès, cependant, sont lents dans certains secteurs.

38.2 Gestion par le gouvernement fédéral du système d'assurance de la salubrité des aliments. La nouvelle Agence canadienne d'inspection des aliments regroupera tous les programmes fédéraux d'inspection des aliments, de santé des animaux et de protection des végétaux. Elle a pour mission d'accroître l'efficacité et l'efficacité des programmes fédéraux d'inspection des aliments, à un coût moindre pour les contribuables.

38.3 Les normes de salubrité et d'inspection ne sont pas encore fondées sur les risques et elles ne sont pas uniformes pour l'ensemble des produits et des entreprises. La fréquence des inspections des usines manque encore d'uniformité et les objectifs à ce titre souvent ne sont pas atteints. Bien que cette situation ne compromette pas la santé et la salubrité des aliments, elle persistera tant que des normes communes n'auront pas été finalisées et tant que les programmes d'inspection n'auront pas été révisés.

38.4 La Commission de contrôle de l'énergie atomique (CCEA) — Organisme canadien de réglementation nucléaire. Les mesures récentes prises par la CCEA témoignent à la fois d'une volonté de revitaliser l'organisation et d'un effort considérable pour répondre à nos préoccupations. Toutefois, il lui reste beaucoup à faire.

38.5 La réponse à plus des deux tiers de nos préoccupations dépend en totalité, ou en partie, de ce qu'il adviendra du projet de loi qu'étudie présentement le Parlement. À notre avis, sans une mise à jour de la loi, la capacité de la CCEA de remplir son mandat demeurera limitée. Toutefois, comme nous l'avons souligné dans le cadre de notre vérification de 1994, une nouvelle loi ne peut en soi corriger les lacunes décelées dans les processus et les pratiques de gestion.

Revenu Canada

L'application de la Loi de l'impôt sur le revenu aux grandes sociétés

Vérificateur général adjoint : Shahid Minto
Vérificateur responsable : Barry Elkin



Chapitre 37 – Points saillants

37.1 Le programme des dossiers importants de Revenu Canada assure une approche coordonnée à la vérification des sociétés les plus grandes et les plus complexes. Les quelque 6 000 sociétés visées par ce programme paient chaque année approximativement quatre milliards de dollars en impôt sur le revenu des sociétés, ce qui représente environ 25 p. 100 de l'ensemble des recettes fiscales provenant des sociétés.

37.2 Environ 300 personnes mettent le programme en oeuvre. La plupart sont des vérificateurs dont le poste relève de différents bureaux des services fiscaux dans tout le pays. Revenu Canada a déclaré que les activités de vérification exercées dans le cadre de ce programme en 1994-1995 ont eu une incidence de 850 millions de dollars en impôt fédéral supplémentaire pour l'année même et de 459 millions de dollars pour les années à venir.

37.3 L'objectif principal poursuivi par les vérificateurs de Revenu Canada est de veiller à ce que la loi soit observée. Leur travail les oblige à faire face à de nombreux défis, notamment la complexité de la législation concernée et son évolution constante, le recours à des politiques administratives pour pallier des lacunes dans la loi et la complexité croissante des affaires avec la mondialisation de l'économie.

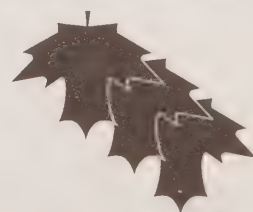
37.4 Afin de relever certains de ces défis et d'améliorer les relations avec les contribuables, le Ministre a annoncé, le 6 mars 1995, l'adoption d'une nouvelle approche à la vérification des dossiers des grandes entreprises. Cette approche est axée sur des relations empreintes de collaboration, d'ouverture et de transparence entre le contribuable et Revenu Canada. Il est trop tôt pour dire dans quelle mesure la nouvelle approche produira les effets souhaités, mais toute amélioration des relations entre Revenu Canada et les contribuables devrait profiter aux deux parties.

37.5 Sélectionner les bons points à vérifier est l'une des principales clés de l'efficacité du programme. Certaines améliorations ont été apportées, mais le Ministère devra faire davantage pour veiller à ce que les vérificateurs sélectionnent les points qui représentent les risques d'observation les plus élevés et pour garantir à ses gestionnaires que ces points sont effectivement sélectionnés.

37.6 Revenu Canada vérifiait auparavant les déclarations plusieurs années après leur production; cela a occasionné des problèmes aux contribuables et aux vérificateurs du Ministère. Un projet lancé en 1994 vise à faire en sorte que les déclarations soient vérifiées plus tôt; les objectifs immédiats qui ont été fixés pour ce projet ont dans une large mesure été atteints. Nous appuyons cette initiative, car nous y voyons des avantages tant pour les contribuables que pour Revenu Canada. Le Ministère ignore toutefois le prix de cette réussite, c'est-à-dire le montant des nouvelles cotisations qui n'ont peut-être pas été établies en raison du projet.

37.7 Pour que les résultats publiés du programme donnent un tableau plus complet, il faudrait y ajouter des données sur les sommes qui sont réellement exigées des contribuables ou qui leur sont remboursées ainsi que des renseignements sur les appels ultérieurs. Revenu Canada ne mesure pas encore de façon adéquate l'efficacité du programme des grandes sociétés à atteindre son objectif principal, à savoir améliorer l'observation des lois fiscales.

37.8 Un certain nombre de problèmes de ressources humaines — notamment des écarts entre les ressources affectées et les ressources utilisées, ainsi que des difficultés éprouvées dans la dotation des postes — font obstacle à l'obtention de meilleurs résultats pour le programme. En outre, il faut un environnement qui favorise l'apprentissage et l'amélioration continue si l'on veut stimuler les résultats de qualité.



Vérificateur général adjoint : Shahid Minto
Vérificateur responsable : Jim Ralston

Revenu Canada et le ministère des Finances La taxe sur les produits et services — Remboursement pour habitations neuves et « fourniture à soi-même »

Chapitre 36 – Points saillants

- 36.1** Le traitement des opérations liées aux biens immobiliers d'habitation sous le régime de la taxe sur les produits et services (TPS) est une question très complexe. Cette complexité est la source d'une grande partie de l'inobservation de la loi et des difficultés administratives rencontrées dans ce domaine.
- 36.2** Les modifications techniques proposées sur les biens immobiliers d'habitation, qui ont été annoncées par le gouvernement le 23 avril 1996, devraient permettre de corriger certaines situations menant à l'inobservation de la loi ou à des résultats non voulus. Cependant, l'administration du programme de remboursement pour habitations neuves fait face à des difficultés qui pourraient n'être résolues que grâce à des modifications législatives ou à des directives d'interprétation supplémentaires de Revenu Canada. Une évaluation du programme de remboursement pour habitations neuves fournirait des renseignements utiles à l'examen de ces questions.
- 36.3** Revenu Canada consacre des efforts de vérification considérables aux paiements du remboursement pour habitations neuves versés pour des habitations « construites par le propriétaire », mais les efforts axés sur les remboursements versés pour des habitations « construites par le constructeur » sont de beaucoup inférieurs. Même si les remboursements du premier groupe présentent des risques plus élevés, les remboursements du deuxième groupe ne sont pas sans risque d'inobservation et sont, au total, beaucoup plus importants pour le Trésor fédéral (218 millions de dollars sur un total de 303 millions de dollars en paiements du remboursement pour habitations neuves pour l'exercice terminé le 31 mars 1996).
- 36.4** À l'heure actuelle, les systèmes d'information de Revenu Canada ne peuvent fournir une grande partie des renseignements nécessaires à l'administration du programme de remboursement pour habitations neuves.
- 36.5** Un des bureaux des services fiscaux de Revenu Canada a mené un projet de vérification réussi concernant l'inobservation des règles de la « fourniture à soi-même » dans le cas des immeubles d'habitation à logements multiples. Il pourrait être utile de reprendre ce projet dans d'autres régions du pays.
- 36.6** On craint qu'une disposition de la *Loi sur la taxe d'accise*, dont l'objet est d'assurer un traitement équitable aux constructeurs professionnels non constitués en société qui construisent des maisons à titre de résidence personnelle, soit utilisée par des petits entrepreneurs qui construisent des maisons en vue de les revendre sans payer de TPS. Même si, dans la plupart des cas, les cotisations que Revenu Canada a établies pour de tels constructeurs ont été confirmées par la Cour canadienne de l'impôt, le Ministère et le ministère des Finances continuent à suivre la situation de près.
- 36.7** La politique de Revenu Canada concernant la divulgation volontaire n'offre pas beaucoup d'encouragement aux constructeurs qui ne se sont pas conformés aux règles sur la fourniture à soi-même pour les inciter à se faire connaître et à reprendre la voie de l'observation.



Chapitre 35 – Points saillants

35.1 En 1994, les chapitres 24 à 27 de notre rapport portaient sur les systèmes de gestion, la technologie de l'information, les réductions de l'infrastructure et la gestion de l'infrastructure au sein du ministère de la Défense nationale. Le présent chapitre rend compte de la mesure dans laquelle ce ministère a donné suite à nos recommandations et à celles formulées ultérieurement par le Comité des comptes publics.

35.2 Le Ministère n'a pas mis en place de système adéquat de suivi permettant de vérifier s'il avait été donné suite à nos recommandations en conformité avec les réponses qu'il avait formulées à leur égard. Puisque la mise en oeuvre des engagements du Ministère n'a pas été surveillée adéquatement, certains plans d'action n'ont pas été complètement réalisés.

35.3 Certains progrès ont été accomplis pour ce qui est de l'application de nos recommandations portant sur les systèmes de gestion de la Défense nécessaires à la planification, l'organisation, la direction et le contrôle de la défense du Canada, mais il reste beaucoup à faire. Par exemple, le Ministère a commencé à faire une évaluation du caractère raisonnable des coûts de la politique de défense et à en rendre compte, mais son évaluation ne porte que sur une période de cinq ans.

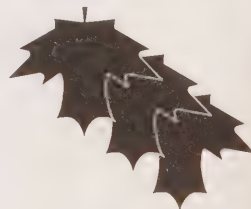
35.4 Le Ministère a accompli des progrès marqués quant à la mise en oeuvre de nos recommandations concernant la technologie de l'information. Il a accordé une grande importance à la réduction des coûts au cours des deux dernières années. Le Ministère soutient l'approche de gestion des projets de technologie de l'information que nous recommandions dans notre rapport de 1994 et que recommandait aussi le Secrétaire du Conseil du Trésor. Cependant, la mise en service du Système de communication stratégique de messages (SCSM), qui permettra de réaliser des économies nettes de 52 millions de dollars par année, accuse environ 24 mois de retard et le système de commandement et de contrôle de la Force terrestre ne sera pas parfaitement interfonctionnel avec les autres systèmes du Ministère avant l'an 2001.

35.5 Des progrès marqués ont été accomplis en vue de la rationalisation de l'infrastructure. Le Ministère semble respecter les échéances établies pour ce qui est de la mise en oeuvre de son plan de réductions. Par ailleurs, les méthodes servant à préciser les besoins d'infrastructures nouvelles et d'infrastructures de remplacement devraient améliorer la rapidité d'exécution et la rentabilité des projets de construction. L'élaboration des stratégies d'entretien a peu progressé.

35.6 Des progrès ont été réalisés au plan de la mise en oeuvre de nos recommandations sur la gestion des infrastructures. Les projets de construction sont maintenant administrés à l'aide d'une structure organisationnelle remaniée et le Ministère s'efforce d'adopter des pratiques novatrices. Ce nouveau système de réalisation des travaux de construction connaît un succès total dans la mesure où le Ministère réussira à instaurer la planification des activités aux niveaux des commandements et des bases. Pratiquement toutes les bases militaires étudient la possibilité d'utiliser le système de prestation de services pour les travaux jadis effectués uniquement par le Génie construction. Cependant, il faut prendre d'autres mesures pour éliminer l'arriéré de dix ans qu'accusent les projets d'entretien, pour mettre un terme aux déficits d'exploitation des logements familiaux et pour s'entendre avec les municipalités sur les services à recevoir en échange des subventions versées en remplacement de l'impôt foncier.

Chapitre 34 – Points saillants (suite)

- Il y a eu une amélioration pour ce qui est de la maintenance des aéronefs. Des millions de dollars ont, en effet, été épargnés sur les frais de maintenance des DASH-8 et des CF-18 à Cold Lake. Il semble toutefois que les choses aient cessé de s'améliorer. La bureaucratie, le manque de responsabilité financière et l'absence de données sur les coûts demeurent des problèmes.
 - La productivité du service de l'instruction était plus faible que dans le secteur privé en 1990 et a chuté de 40 p. 100 depuis.
- 34.7 Pour que les forces armées puissent remplir tous les rôles de défense précisés dans le Livre blanc de 1994 avec 25 p. 100 moins de ressources, comme l'a indiqué le ministre de la Défense nationale, la productivité des services de soutien doit commencer à augmenter sans plus tarder.



Chapitre 34 – Points saillants

34.1 La Défense nationale utilise un système national de soutien aux unités opérationnelles. Vingt-neuf bases offrent ces services qui, chaque année, coûtent deux milliards de dollars.

34.2 D'importantes transformations s'opèrent actuellement au Ministère par suite des modifications apportées à la politique de défense et des réductions des ressources prévues dans les trois derniers budgets. Le Ministère réduit son personnel et ferme des bases en même temps qu'il met en oeuvre un programme de renouvellement de la gestion. Ces pressions, jointes aux efforts déployés pour accroître la part des ressources affectées aux forces de combat, rendent plus complexe la gestion du changement. Néanmoins, le Ministère s'est engagé à effectuer entre 1994 et 1999 la plupart des grands changements.

34.3 Au niveau du Ministère, des initiatives de renouvellement sont en cours, mais, pour le moment, peu de résultats concrets sont visibles. Des cadres supérieurs nous ont dit qu'il était encore trop tôt pour s'attendre à ce que leurs initiatives aient produit des résultats.

34.4 La haute direction veut que ses gestionnaires se considèrent comme des gestionnaires de ressources actifs et conscients des coûts et non plus comme de simples « gardiens de ressources ». Les données d'enquêtes indiquent que, même si la plupart des membres du personnel de la Défense nationale sont réceptifs au changement, le Ministère aura d'importants obstacles à surmonter pour créer une main-d'oeuvre dotée des pouvoirs d'agir et entreprenante. Le Ministère a pris des mesures louables pour faire face au problème de l'évolution des valeurs et des convictions, mais le changement ne fait que commencer et la Défense nationale devra faire davantage pour sensibiliser et motiver le personnel.

34.5 La plupart des gestionnaires des bases disent qu'ils ne peuvent pas obtenir toutes les données sur les coûts dont ils ont besoin et quand ils en ont besoin. Les données sur le rendement font défaut dans la plupart des bases. Au niveau opérationnel, nous avons constaté que l'augmentation de la productivité variait. Dans certains cas, la productivité a diminué :

- En dépit de certaines initiatives importantes prises pour apporter des améliorations, la productivité de la main-d'oeuvre dans les services d'approvisionnement des bases a diminué de 10 p. 100 de 1992-1993 à 1995-1996 parce que la réduction des activités a été plus rapide que celle du personnel. Les agents du Ministère croient que ce n'est là qu'un problème temporaire et que, dans l'ensemble, leurs efforts produiront des améliorations.
- Dans les services de transport, le nombre de kilomètres parcourus par chauffeur variait énormément d'une base à l'autre. Dans les bases les plus performantes, les chauffeurs avaient parcouru cinq fois plus de kilomètres que ceux des bases les moins performantes.
- La productivité quant à l'entretien des véhicules était plus faible que dans le secteur privé. La différence s'explique peut-être en partie par les exigences militaires, mais le Ministère n'a pas calculé dans quelle mesure la différence est attribuable à ces exigences.

Chapitre 33 – Points saillants (suite)

33.6 Le Ministère doit, de concert avec les Premières nations, les conseils tribaux et les autres bénéficiaires, intensifier ses efforts afin de régler les questions qui entourent les modes de financement. Ce faisant, il faut que les parties puissent et veuillent cerner les risques communs liés à l'évolution de leur relation et y parer, tout en répondant à leurs besoins respectifs en matière de responsabilisation.



Chapitre 33 – Points saillants

33.1 Ces dernières années, les dépenses budgétaires annuelles des Affaires indiennes et du Nord Canada se sont élevées en moyenne à plus de quatre milliards de dollars. De ces fonds, quelque trois milliards de dollars sont administrés et dépensés par les Premières nations, par les conseils tribaux et par d'autres bénéficiaires pour l'éducation, l'assistance sociale, le développement des infrastructures et pour répondre à d'autres besoins, surtout dans les réserves. Ce niveau de financement devrait se maintenir jusqu'en 1998-1999 au moins.

33.2 À l'heure actuelle, le Ministère applique jusqu'à six modes de financement ou composantes de ceux-ci pour transférer des fonds chaque année aux bénéficiaires. La plus grande partie des modes de financement consistent en contributions qui s'assortissent de différentes conditions.

33.3 Au cours de 1993-1994, le Ministère a senti le besoin de revoir les modes actuels de financement de façon à inscrire dans un cadre clair sa relation avec les Premières nations. Une nouvelle entente de transfert financier (ETF) est en voie d'être conçue et elle devrait remplacer la plupart des modes actuels, d'ici 1998-1999. Le Ministère s'attend que ce nouveau mode permette d'accroître la responsabilité, de mieux répondre aux besoins des collectivités, d'optimiser davantage les ressources financières et de favoriser d'autres retombées positives.

33.4 Le Ministère a adopté trois principes de responsabilité en rapport avec la transparence, la divulgation et le recours de manière à contribuer à renforcer la responsabilité. Il s'apprête à élaborer un cadre de responsabilité en vertu duquel on s'attend que les Premières Nations rendent compte tout d'abord aux membres de leur collectivité. Le Ministère demeure toujours responsable devant le Parlement de la façon dont il gère ses ressources.

33.5 Les constatations suivantes sont ressorties de la vérification :

- l'application des modes actuels de financement présente des lacunes qui persistent;
- le Ministère n'a pas fini de démontrer en quoi la nouvelle entente de transfert financier contribuera à corriger des problèmes connus et à apporter les améliorations escomptées;
- jusqu'à 65 p. 100 des fonds transférés au cours de l'exercice 1995-1996 étaient assujettis à des modes de financement plus restrictifs. Il semble donc y avoir encore beaucoup à faire pour mettre en oeuvre l'entente de transfert financier et en réaliser les avantages dans le contexte des rapports nouveaux qui s'établissent entre les parties;
- le Ministère n'a pas beaucoup recherché la consultation des bénéficiaires de ces transferts au moment de décider d'aller de l'avant avec l'entente de transfert financier, et les Premières nations ainsi que les conseils tribaux se sont dits préoccupés;
- le Ministère a reconnu le besoin de se pencher sur la question des attentes au sujet de la responsabilité et des résultats escomptés et il va de l'avant en ce sens.



Patrimoine canadien – Parcs Canada – La gestion des canaux historiques

Vérificateur général adjoint : Robert R. Lalonde
Vérificateur responsable : Harry A. Ruthnum

Chapitre 32 – Points saillants

32.1 Dans les années 70, la gestion des neuf canaux historiques a été transférée à Parcs Canada, marquant ainsi le fait que ces canaux ne servaient plus au transport commercial, mais bien à des activités récréatives et à l'appréciation historique. Le gouvernement décida alors de mettre l'accent non plus sur le transport, mais plutôt sur la restauration, la préservation et l'interprétation historiques, de même que sur la préservation et l'interprétation du milieu naturel et sur l'utilisation optimale des terres fédérales.

32.2 Il y a un écart considérable entre les recettes et les coûts totaux de fonctionnement. En dépit du fait qu'un certain nombre d'études ont souligné la nécessité de procéder à une restructuration et de combler l'écart financier, peu de mesures ont été prises. Nous avons constaté que les services ne répondaient pas à la demande, que la restauration et l'exploitation des canaux n'étaient pas assurées au plus bas coût possible et qu'il était difficile de trouver des partenaires pour assumer des responsabilités liées aux canaux ou pour contribuer à leur financement.

32.3 Les contribuables paient la plus grande partie des dépenses engagées par Parcs Canada pour assurer des avantages personnels aux plaisanciers. La direction des canaux a indiqué qu'elle n'avait pas l'intention d'accroître les recettes provenant des plaisanciers afin qu'elles couvrent les coûts de la navigation et qu'il était impossible de le faire.

32.4 La navigation répond aux besoins d'un marché restreint et en décroissance. Au cours d'une année normale, à peine 1 370 bateaux naviguent sur la voie Trent-Severn et 2 200, sur le canal Rideau. Bien que les canaux soient ouverts pendant cinq mois, 80 p. 100 des plaisanciers les utilisent en juillet et août seulement. En écoutant la saison de navigation, il serait possible de réduire les coûts de fonctionnement d'environ 45 p. 100. En outre, combiner une saison plus courte à la fermeture des écluses sous-utilisées permettrait de réaliser des économies de près de 10 millions de dollars par année.

32.5 Au fil des ans, le ministère de la Justice a fourni des avis juridiques sur divers aspects de l'obligation de Parcs Canada en matière de navigation. En juin 1996, des avis juridiques ont été obtenus sur un autre aspect de la question. Selon nous, ces avis ne contiennent pas assez d'orientations sur l'obligation de Parcs Canada en matière de navigation. À la lumière des nouvelles réalités financières, il faut que cette obligation de Parcs Canada soit examinée.

32.6 Parcs Canada a demandé au Conseil du Trésor l'autorisation de reconstruire l'écluse récréative du canal de Sault Ste. Marie, en partenariat avec la province de l'Ontario et la ville de Sault Ste. Marie. Les coûts en capital sont évalués à 28 millions de dollars sur une période de 30 ans. Une analyse de rentabilité rigoureuse aurait démontré que l'exploitation du lieu historique et la fermeture permanente de l'écluse auraient été l'option la plus rentable.



Chapitre 31 – Points saillants

- 31.1** Parcs Canada administre 38 parcs nationaux, dont deux créés tout récemment, quatre aires marines nationales de conservation et 131 lieux historiques parmi lesquels on compte neuf canaux historiques. Le réseau de 38 parcs nationaux couvre une superficie approximative de 225 000 kilomètres carrés. En 1994-1995, les parcs nationaux, les lieux historiques nationaux et les canaux historiques ont reçu plus de 25 millions de visiteurs. Le budget de 1996-1997 s'élève à 368 millions de dollars.
- 31.2** Le Budget fédéral de mars 1996 annonçait l'intention du gouvernement de créer un organisme de service distinct pour administrer le programme de Parcs. Ce nouvel organisme aura pour mandat de gérer et de préserver pour les générations à venir, un réseau de parcs nationaux, de lieux historiques nationaux et d'autres protégés pour l'usage et le plaisir des Canadiens.
- 31.3** Dans l'ensemble, Parcs Canada doit améliorer ses connaissances au sujet de l'état des ressources naturelles des parcs nationaux afin d'adopter une approche de gestion avisée fondée sur les écosystèmes. Cette approche lui permettrait de s'assurer que les parcs nationaux demeurent intacts pour le plaisir des générations futures, comme l'exige la *Loi sur les parcs nationaux*. Nous avons constaté que :
- dans les six parcs nationaux étudiés, les données biophysiques de Parcs Canada ne sont plus à jour ou sont incomplètes, sauf dans le parc national de la Mauricie;
 - bien que les politiques et les lignes directrices de Parcs Canada accordent une priorité élevée à la surveillance de l'intégrité écologique des écosystèmes des parcs nationaux, dans bien des parcs nationaux, le Ministère n'a pas surveillé les conditions écologiques de façon régulière et continue.
- 31.4** Nous craignons que les mesures prises pour accroître la fréquentation, si elles ne font pas l'objet d'une gestion attentive, portent atteinte à l'intégrité écologique des parcs nationaux. De plus, l'ajout de nouveaux parcs au réseau exercera des contraintes considérables sur les ressources que Parcs Canada peut allouer à chacun des parcs pour maintenir et améliorer l'intégrité écologique.
- 31.5** Vingt-quatre des trente-neuf régions naturelles sont actuellement représentées par un parc national. Depuis 1990, quatre nouveaux parcs nationaux (pour lesquels les préparatifs de création avaient débuté avant 1990) ont été créés. À ce rythme, le réseau des parcs nationaux ne sera pas achevé d'ici l'an 2000 comme prévu.
- 31.6** Certains des sites envisagés pour devenir des parcs nationaux sont encore ouverts aux activités de développement industriel. Nous craignons que ces activités n'endommagent les écosystèmes et l'habitat de la faune que les parcs nationaux tentent de protéger et diminuent leur valeur en tant que réserves naturelles.
- 31.7** Parcs Canada n'a pas élaboré de plan d'action ni fixé de date cible pour le parachèvement du réseau des aires marines nationales de conservation.

30.5 Le Service correctionnel ne gère pas de manière efficace ses activités de réinsertion sociale. Il s'agit du troisième d'une série de chapitres qui ont porté sur les faiblesses systémiques des activités de réinsertion sociale du Service. Les trois vérifications ont fait ressortir de graves lacunes dans la mise en œuvre de procédures normalisées, l'élaboration de mesures de rendement et l'établissement de mécanismes appropriés de contrôle de la qualité. Même si le Service correctionnel a cerné les problèmes que pose le volet réinsertion sociale de son mandat, il n'a pas réussi à les résoudre. Nous croyons que le Service correctionnel devra repenser en profondeur la façon dont il aborde la gestion des activités de réinsertion sociale s'il entend garantir la sécurité à long terme du public.

30.4 Le milieu de travail des agents de gestion des cas nuit souvent à la qualité des recommandations en matière de libération conditionnelle. Les normes relatives à la formation et au volume de travail des agents de gestion des cas sont insuffisantes. Les agents de correction (gardiens) ne s'acquittent pas de la responsabilité qui leur incombe de participer à la formulation des recommandations concernant la libération conditionnelle. Ce qui est le plus important, le contrôle qualitatif des recommandations relatives à la libération conditionnelle ne correspond pas au risque que présente le délinquant pour la société.

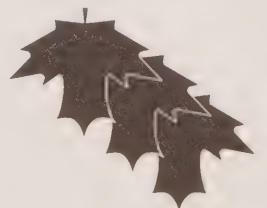
30.3 Le Service correctionnel ne prépare pas toujours les cas des délinquants à temps pour la date prévue de leur admissibilité à la libération conditionnelle. Nous avons estimé qu'en 1995-1996, presque aucun délinquant qui purgeait une peine de deux à trois ans n'était prêt pour son premier examen en vue d'une libération conditionnelle éventuelle. Consacrer des ressources rares à la gestion de délinquants à faible risque au lieu de les affecter aux délinquants à risque élevé ne constitue pas la stratégie à long terme la plus efficace pour assurer la sécurité du public.

30.2 Le manque de collaboration entre les administrations fédérale et provinciales met en péril la sécurité du public. Le Service correctionnel éprouve de graves difficultés à obtenir des renseignements sur les délinquants au moyen des documents officiels comme les rapports de police, les mémoires des procureurs de la Couronne et les motifs invoqués par les juges, même s'il s'agit d'une exigence de la loi. Selon de nombreuses enquêtes, le manque de renseignements essentiels a été une cause importante de tragédies où des délinquants mis en liberté ont commis des crimes de violence. Des accords de mise en commun de l'information ont été conclus avec certaines provinces seulement. Là où des accords sont en place, on relève encore des problèmes de communication au moment opportun et de disponibilité.

30.1 Le Service correctionnel du Canada joue deux rôles principaux : l'incarcération des délinquants et leur réinsertion sociale en vue de la sécurité du public à long terme. En 1995-1996, les activités de réinsertion sociale auxquelles ont participé les 8 000 délinquants assujettis à une surveillance dans la collectivité et les 14 500 délinquants incarcérés ont coûté près de 300 millions de dollars. Le fait que plus de 70 000 détenus sous responsabilité fédérale aient été remis en liberté au cours de la dernière décennie témoigne de l'importance de la deuxième partie du mandat du Service correctionnel, soit la réinsertion sociale sécuritaire des délinquants. Dans la présente vérification, nous avons examiné le processus auquel a recours, au coût de 79 millions de dollars, le Service correctionnel pour formuler des recommandations en matière de mise en liberté à la Commission nationale des libérations conditionnelles.

Chapitre 30 – Points saillants

Vérificatrice générale adjointe : Maria Barrados
Vérificateur responsable : David Brittain



**Service correctionnel Canada —
La réinsertion sociale des
délinquants**

- faire ressortir l'importance d'appliquer le cadre et les outils d'évaluation pour le suivi permanent des résultats pendant les étapes de mise en oeuvre des programmes et des projets;
- améliorer la communication d'information sur le rendement;
- élaborer un plan pratique et réalisable ainsi qu'un calendrier pour la mise en oeuvre du système.

29.9 Le défi pour l'Agence est vraiment de taille. Premièrement, le système d'examen du rendement des projets bilatéraux qui servira à mesurer et à communiquer les résultats en est encore aux premières étapes de développement. Le système doit être élaboré d'avantage de concert avec les agents d'exécution canadiens et les institutions des pays d'accueil, puis mis à l'essai par le personnel sur le terrain pour voir s'il convient. Cela prendra du temps, étant donné que le travail lié aux aspects critiques, comme l'établissement d'un lien entre l'information fournie par le système et l'information communiquée au Parlement, n'est pas suffisamment avancé. Deuxièmement, les outils nécessaires au renforcement de l'efficacité de la gestion et de la reddition de comptes de l'Agence ne sont pas tous au point.

29.10 L'Agence nous a soumis, en octobre 1996, le rapport d'étape de ses progrès accomplis en vue de son renouveau, dans la mesure où ils ont répondu aux préoccupations soulevées dans notre rapport de 1993. L'étendue et le calendrier de nos travaux de vérification de la Phase III seront confirmés par la suite.



Chapitre 29 – Points saillants

- 29.1** En 1993, nous avons signalé au Parlement que le rendement de l'Agence pouvait être grandement amélioré. Notre analyse d'un échantillon de programmes et de projets bilatéraux a révélé que, dans la majorité des cas, on pouvait mettre en doute que les dépenses de l'ACDI puissent produire des avantages durables.
- 29.2** L'ACDI était d'accord avec l'orientation de nos recommandations visant à améliorer sa reddition de comptes et à renforcer l'efficacité de sa gestion.
- 29.3** En 1994, l'ACDI s'est engagée devant le Parlement à agir sur plusieurs fronts, comme le souligne le Plan de renouvellement de l'ACDI de 1994-1995. Ce grand effort de renouvellement vise à transformer l'Agence en une organisation plus axée sur les résultats et plus responsable.
- 29.4** Une approche de suivi échelonné sur trois ans, qui doit prendre fin en 1997, a été élaborée pour surveiller les efforts de l'ACDI. Au cœur de cette approche : une auto-évaluation permanente des progrès de l'ACDI dans ses efforts pour répondre aux préoccupations soulevées par le vérificateur général.

Nos commentaires sur les mesures dont l'ACDI a fait rapport

- 29.5 Phase I.** En 1995, nous avons signalé que l'ACDI avait axé ses premiers efforts sur l'organisation et la planification du renouvellement, et ce, principalement à l'administration centrale. L'Agence a élaboré un concept de gestion axé sur les résultats pour renforcer son efficacité. Nous avons indiqué qu'il serait opportun de prendre les nouveaux concepts et les nouvelles politiques élaborés à l'administration centrale et de les mettre en œuvre sur le terrain où l'on s'attend à ce que les dépenses de l'ACDI produisent des résultats.
- 29.6 Phase II.** L'ACDI s'est engagée à mieux communiquer l'information et à être plus transparente au sujet de son rendement. Pour faciliter le processus, il lui faudra changer sa culture organisationnelle.
- 29.7** L'Agence a adopté un énoncé de principe sur la gestion axée sur les résultats et elle en a entrepris la mise en œuvre. Depuis, l'Agence a élaboré un cadre de résultats et de facteurs clés de réussite pour mesurer ses résultats au niveau des projets. Elle a aussi circonscrit un jeu d'outils d'évaluation qui permettra au personnel opérationnel d'utiliser le cadre. Il s'agit des premières d'une série de mesures nécessaires à la mise au point d'un système efficace de mesure du rendement. Ces mesures commencent à atténuer nos inquiétudes concernant le fait que l'Agence ne disposait pas de procédures satisfaisantes pour mesurer son efficacité et communiquer de l'information à ce sujet.
- 29.8** L'ACDI doit aller de l'avant avec courage et détermination si elle veut tirer des avantages pratiques des nouveaux concepts et des nouvelles politiques qu'elle a élaborés. Actuellement, l'ACDI doit :
- clarifier de quelle façon la poursuite des objectifs au niveau des projets contribue à l'atteinte des objectifs au niveau des programmes-pays et, s'il y a lieu, des objectifs de plus haut niveau énoncés par le gouvernement dans *Le Canada dans le monde*;



Chapitre 28 – Points saillants

- 28.1** Le Programme des paiements de transition pour le grain de l'Ouest (le Programme) prévoit le versement de 1,6 milliard de dollars aux propriétaires de terres agricoles des Prairies en dédommagement pour la baisse de la valeur des terres imputable à l'élimination de la « Subvention du Nid-de-Corbeau », au 1^{er} août 1995. La conception et l'administration du Programme ont été confiées à Agriculture et Agroalimentaire Canada.
- 28.2** La décision de mettre un terme à cette subvention de longue date s'inscrivait dans le cadre d'un changement important de la politique du gouvernement visant une réforme du système du transport du grain de l'Ouest. Cette décision a contribué à un exercice de réduction des coûts à long terme en éliminant la « Subvention du Nid-de-Corbeau » dont le montant annuel s'élevait à 560 millions de dollars.
- 28.3** Le Ministère, conscient des problèmes soulevés par notre Bureau en 1993 relativement au Programme d'adaptation et de redressement de la pêche de la morue du Nord (PARPEM), a fait le nécessaire pour éviter que l'histoire se répète.
- 28.4** En 16 mois, il a réuni et traité suffisamment de données pour permettre à 209 887 propriétaires fonciers de toucher un paiement provisoire équivalant à environ 71 p. 100 du montant total prévu selon le Programme. En tout, les propriétaires admissibles toucheront de 7,25 \$ à 48,31 \$ l'acre, selon la distance qui sépare les terres du port et la productivité de celles-ci.
- 28.5** Nous avons constaté que les paiements étaient calculés conformément à la Loi et au Règlement des habitants du Programme. Nous avons également remarqué que le Ministère multipliait les efforts pour veiller à ce que les paiements soient versés promptement, compte tenu des contraintes liées à la disponibilité des données. Nous avons en outre effectué un examen restreint des contrôles internes clés qui régissent le processus de paiement. Rien, au cours de cet exercice, n'a indiqué l'existence de problèmes dignes de mention en ce qui concerne les paiements.
- 28.6** Le Ministère devra surveiller et évaluer à long terme l'orientation des changements visant l'objectif de diversification des cultures et de développement d'industries de transformation à valeur ajoutée.

Chapitre 27 – Points saillants (suite)

27.6 Il y a cependant moyen d'améliorer les dispositions en matière de contrôle et de responsabilisation. La prise de mesures dans ces secteurs, par exemple renforcer le leadership et la coordination, mesurer et surveiller le rendement dans l'ensemble de la communauté, donner des instructions ministérielles générales et prévoir des examens internes au ministère de la Défense nationale et au ministère des Affaires étrangères et du Commerce international, améliorer la mesure du rendement au Service canadien du renseignement de sécurité et au Centre de la sécurité des télécommunications, aidera la communauté à relever les défis posés par le contexte changeant du renseignement et à répondre aux attentes croissantes du public qui souhaite un meilleur contrôle et une meilleure responsabilisation dans toutes les institutions gouvernementales.

La communauté canadienne du renseignement

Le contrôle et la responsabilisation

Vérificateur général adjoint : David Rattray
Vérificateur responsable : Henno Moentling



Chapitre 27 – Points saillants

27.1 « Renseignement » désigne l'information qui, en tout ou en partie, ne se trouve pas dans des sources conventionnelles, tels les médias écrits. Pour l'obtenir, il faut avoir accès à de l'information recueillie par des moyens « secrets » ou clandestins. Le renseignement peut aider le gouvernement à disposer d'analyses de la politique bien étayées et à prendre des décisions éclairées, en particulier dans les secteurs de la politique étrangère, de la politique commerciale et économique, de la politique de défense et de la sécurité publique.

27.2 Depuis la fin de la guerre froide, l'ampleur et l'objet des activités de renseignement ont considérablement changé. Non seulement le gouvernement a toujours besoin d'information sur des préoccupations de longue date, tel le terrorisme, mais il lui faut aussi maintenant des renseignements sur de nombreux sujets nouveaux, par exemple, la prolifération des armes de destruction massive, le crime organisé transnational et l'espionnage économique.

27.3 Pour obtenir des renseignements, le gouvernement compte sur des organismes qui doivent pouvoir utiliser des techniques intrusives et travailler en grande partie dans le secret. Les dispositions en matière de contrôle et de responsabilisation sont donc critiques de deux points de vue : assurer l'équilibre entre le besoin de protéger et de promouvoir les intérêts nationaux et le besoin de protéger les droits et libertés individuels, et répondre aux attentes grandissantes du public qui souhaite que tous les organismes gouvernementaux soient efficaces et efficient.

27.4 Notre vérification donne un aperçu de la communauté canadienne du renseignement — les organismes et les unités qui recueillent et analysent le renseignement de sécurité et le renseignement étranger et qui en font rapport, et ceux qui en coordonnent ou en examinent les opérations. De plus, elle renseigne le Parlement sur la nature, la portée et le fonctionnement des dispositions en matière de contrôle et de responsabilisation dans la communauté du renseignement.

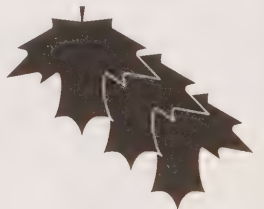
27.5 D'importantes dispositions en matière de contrôle et de responsabilisation sont en place, et des progrès ont été faits ces dernières années pour les améliorer. Bien que le rôle du Parlement soit limité du fait que les activités et le rendement des organismes de renseignement ne puissent faire autant l'objet d'examen et de débats publics que ceux d'autres organismes gouvernementaux, plusieurs organismes extérieurs au gouvernement sont chargés de les examiner et de les surveiller. Le gouvernement donne des instructions à la communauté du renseignement en lui fixant des priorités et il coordonne ses activités par l'entremise du Bureau du Conseil privé. Des procédures sont en place pour assurer le contrôle et l'obligation redditionnelle du Ministre dans les secteurs d'activités importants et délicats, et tant le Service canadien du renseignement de sécurité que le Centre de la sécurité des télécommunications ont des plans, des politiques et des procédures qui les guident dans leurs activités opérationnelles. Enfin, le ministère de la Justice joue un rôle important en matière de contrôle juridique.

Chapitre 26 – Points saillants (suite)

26.6 Les ententes ne comportaient pas d'exigence précise au sujet de la vérification de conformité. Sauf au Québec, les vérifications de conformité n'ont pas été instaurées aussi vite qu'elles auraient dû l'être. En outre, les gestionnaires fédéraux du programme n'ont pas pris les mesures nécessaires pour recevoir une information continue pertinente sur la mise en oeuvre et le rendement du programme. Nous avons aussi constaté que les évaluations environnementales devaient être renforcées.

26.7 Le programme a certes donné lieu à un investissement supplémentaire dans l'infrastructure (et à la création d'autres emplois) en 1994, mais probablement pas dans la mesure indiquée par le total des dépenses de programme. Nous estimons que quelque 35 p. 100 des dépenses de programme de la première année ont remplacé les dépenses en capital normales qui auraient été engagées de toute façon. Une conséquence est que le nombre d'emplois supplémentaires créés par le programme sera probablement inférieur aux 101 000 emplois à court terme annoncés par le gouvernement.

26.8 Le gouvernement fédéral, avec le concours des provinces, a rapidement fait une évaluation du programme qui a porté sur d'importantes questions liées à la conception et aux répercussions du programme. En publiant ses constatations en septembre 1996, le gouvernement a pu faire entrer les commentaires sur le programme dans les facteurs à prendre en considération pour les décisions sur les orientations futures. L'évaluation a révélé les forces et les faiblesses de la conception et de la mise en oeuvre du programme. Toutefois, elle n'a pas traité suffisamment de la mesure dans laquelle le programme a réussi à susciter un investissement supplémentaire. Elle n'a pas non plus considéré l'incidence du programme sur les objectifs secondaires comme la qualité de l'environnement et le développement des compétences des travailleurs.



Le programme Travaux d'infrastructure Canada — Les leçons apprises

Chapitre 26 – Points saillants

- 26.1** Le programme Travaux d'infrastructure Canada a été adopté en 1994 en tant qu'initiative à coûts partagés de six milliards de dollars; le gouvernement fédéral devrait contribuer jusqu'à deux milliards de dollars, et les gouvernements provinciaux et municipaux et d'autres promoteurs de projets, le reste. Le programme sera en vigueur jusqu'en 1998-1999. La structure fondamentale du programme comporte un certain nombre d'avantages et sa mise en oeuvre rapide a produit des bénéfices à un moment très opportun. En 24 mois, 12 000 projets ont été approuvés et plus de 60 p. 100 des fonds du programme ont été dépensés.
- 26.2** Près de 60 p. 100 des fonds ont servi à appuyer des investissements dans des routes, des ponts et des réseaux d'aqueducs et d'égouts. Vingt-et-un pour cent des fonds sont allés à des projets liés aux bâtiments municipaux, à des projets de génie et à des projets qui s'y rattachent. Enfin, 12 p. 100 des fonds ont été consacrés à des installations socio-culturelles et de loisirs et six pour cent à des projets liés à l'éducation.
- 26.3** Des ententes fédérales-provinciales ont été mises en place rapidement, établissant le cadre administratif du programme et divisant les responsabilités entre les gouvernements fédéral et provinciaux en fonction des compétences comparatives de chacun. Comme les investissements dans l'infrastructure locale relèvent essentiellement de la responsabilité provinciale / municipale, la participation du gouvernement fédéral aux activités quotidiennes de mise en oeuvre et d'exécution est limitée, tout comme le contrôle qu'il exerce sur ces dernières. Par conséquent, le gouvernement fédéral devait exposer clairement ses intentions quant aux secteurs cibles et au champ d'application de ce programme de contributions, de même que les exigences fondamentales en matière de contrôle et de reddition des comptes.
- 26.4** Les ententes énoncent les principaux objectifs du programme — améliorer l'infrastructure et créer des emplois. Toutefois, dans la conception du programme, nous avons constaté l'absence d'une démarcation claire au niveau de la gamme des infrastructures admissibles au financement : la définition du mot « infrastructure » peut donner lieu à une interprétation très large. Nous avons aussi constaté un manque de clarté dans les critères de sélection des projets et dans le champ d'application global du programme. Nous avons trouvé des cas d'aide à des entreprises qui participent à des activités du secteur privé ou du secteur semi-privé, par exemple, une station de ski, un terrain de golf ou à la prolongation des réseaux de distribution de gaz naturel pour servir des consommateurs privés.
- 26.5** La plupart des dossiers fédéraux que nous avons examinés ne renfermaient pas d'information ni d'analyse pour appuyer un examen rigoureux des propositions de projet par les fonctionnaires fédéraux et justifier l'approbation des projets. De plus, les fonctionnaires fédéraux du programme n'avaient pas fait assez d'efforts pour vérifier la qualité et l'intégrité de l'information dont disposaient les autres niveaux de décision.

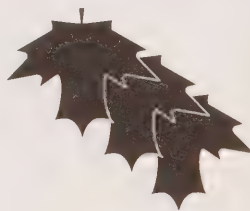
Chapitre 25 – Points saillants (suite)

25.6 En résumé, malgré la bonne réputation des services qu'il offre à l'étranger, l'intensification de la mondialisation et de la libéralisation du commerce au cours des dix dernières années, et les initiatives en cours dans les ministères, le gouvernement fédéral se doit d'améliorer encore plus la gestion de ses activités de promotion des exportations et de développement du commerce international, ainsi que la reddition des comptes à l'égard de ces activités. Nous espérons que dans deux ans, après le suivi de la présente vérification, nous pourrions signaler que des progrès importants ont été faits en ce qui a trait à la correction des lacunes signalées dans le rapport de 1986 et qui subsistent toujours, et en ce qui a trait à celles décrites dans le présent chapitre.

Les activités de promotion des exportations du Canada

Affaires étrangères et Commerce international, et Industrie Canada

Vérificateur général adjoint : David Rattray
Vérificateur responsable : Lewis Auerbach



Chapitre 25 – Points saillants

25.1 Les ventes à l'exportation sont essentielles à la santé économique du Canada. Nos travaux ont porté sur les services de promotion des exportations des deux ministères qui sont les chefs de file de l'effort fédéral à ce chapitre — le ministère des Affaires étrangères et du Commerce international, et Industrie Canada. Nous avons conclu que le Parlement doit être mieux informé en ce qui concerne les dépenses, les résultats, les recettes et le partage des coûts de cet effort. L'objectif visé est de s'assurer qu'il n'y a pas de chevauchement indésirable, que la répartition des dépenses reflète les priorités du gouvernement et que le Parlement est tenu au courant de la mesure dans laquelle progresse la réalisation des objectifs du gouvernement.

25.2 Nous n'avons pas trouvé d'éléments probants qui nous auraient permis de formuler des conclusions fermes sur l'incidence directe de la promotion du commerce, mais il est possible de mesurer la rentabilité d'activités particulières. Il faut pour cela avoir de l'information sur les coûts ainsi que des mesures systématiques et objectives de l'utilité pour les entreprises de ces activités, ou encore des mesures de leur incidence. Toutefois, les deux ministères ont besoin d'une meilleure information sur les coûts. Il leur faut obtenir une rétroaction systématique et objective qui leur permette d'établir la valeur et l'utilité d'un plus grand nombre de leurs activités clés.

25.3 Il est possible d'apporter d'autres améliorations. Les agents commerciaux considèrent qu'ils apportent une meilleure contribution lorsqu'ils agissent comme intermédiaires qui introduisent nos sociétés auprès d'agents, de partenaires de coentreprise ou de distributeurs éventuels. L'initiative individuelle est encouragée. Toutefois, les pratiques varient énormément d'une personne à l'autre et d'une mission diplomatique à l'autre. Bien que souvent utile, cette grande diversité réduit parfois l'efficacité globale. Un recours plus grand et plus systématique aux pratiques reconnues comme supérieures aurait pour effet d'accroître le rendement.

25.4 Les agents commerciaux consacrent également une importante partie de leur temps à des activités qu'ils considèrent peu productives. Cette situation est attribuable à l'absence de critères approuvés pour déterminer la nature et l'étendue des services auxquels peut s'attendre un utilisateur, une situation qui est accentuée par la gratuité des services. Les deux ministères devraient déterminer quels sont les services essentiels à offrir à tous et comment ils doivent être offerts, et quels sont les services supplémentaires à offrir à ceux qui y sont admissibles. Quant à la facturation des services, le commentaire que nous avons présenté au Comité des comptes publics à la suite de notre vérification de 1986 sur la promotion des exportations tient toujours : « Un recouvrement partiel des coûts non seulement permettrait d'accroître les recettes de l'État, mais fournirait également le moyen de mesurer l'efficacité du service fourni. » Les avantages possibles du partage des coûts avec le secteur privé et de la facturation des services ne se sont pas entièrement matérialisés.

25.5 La qualité et l'accessibilité de l'information commerciale et des renseignements sur les marchés que le gouvernement fournit aux entreprises constituent la clé d'un service satisfaisant. Pour cela, il faut disposer d'outils appropriés d'information. Le ministère des Affaires étrangères et du Commerce international, malgré les progrès réalisés récemment, se doit de planifier de manière plus systématique l'utilisation qu'il fera de ces outils pour stimuler le commerce.

Chapitre 24 – Points saillants (suite)

24.16 Nous concluons que le Bureau de projet n'a pas établi, par ses activités d'inspection, le degré d'assurance dont il a besoin pour ce qui est du rendement ou de la sécurité du système. De plus, le Bureau de projet n'est pas en mesure de déterminer quel niveau d'assurance il recevra des activités que lui-même et le maître d'oeuvre mènent et mèneront. Des essais poussés du système pourraient contribuer à donner l'assurance que les fonctions requises existent dans le système, mais ils risquent peu de donner une assurance suffisante de la fiabilité et de la sécurité d'ensemble du système.

Chapitre 24 – Points saillants (suite)

24.9 En avril 1996, le Conseil du Trésor a approuvé un *Cadre amélioré pour la gestion des projets de technologie de l'information* et, en juin 1996, les ministères ont reçu instruction de se conformer à ces exigences. Cependant, les ministères doivent établir des plans d'action pour appliquer le Cadre aux investissements de plus de cinq milliards de dollars dans les projets existants et à venir.

Partie II — CAATS : certaines préoccupations

24.10 Un des projets que nous avons examinés, l'Automatisation du système canadien de la circulation aérienne (CAATS), était en difficulté à la fin de 1994. Il semblait que le projet ne saurait être terminé à temps, ni sans dépassement de budget. Transports Canada a changé le directeur du projet et les liens hiérarchiques pour garantir une intervention continue de sa haute direction dans le reste du projet. Sous cette direction, un marché assorti d'une redéfinition des paramètres de base a été négocié.

24.11 Les changements apportés au projet à la suite de la renégociation du contrat ont entraîné une augmentation de coûts de 217 millions de dollars pour l'État. Dans sa Partie III du *Budget des dépenses*, le Ministère a signalé, selon ce qui est convenu pour les grands projets de l'État, l'approbation effective du projet (659 millions de dollars) et uniquement les coûts supplémentaires à engager jusqu'à la fin du marché principal (75 millions de dollars). Cependant, en ce faisant, le Ministère a fourni de l'information qui laisse entendre que le marché a été renégocié sans aucune augmentation importante dans les coûts du projet. Ainsi, cette présentation n'informe pas pleinement le Parlement de ce qu'a réellement coûté la décision de redéfinir les paramètres de base du projet CAATS.

24.12 Par la renégociation du marché, le prix du contrat est passé de 427 millions à 500 millions de dollars, soit une augmentation de 73 millions de dollars. Notre analyse de la documentation préparée pour justifier l'augmentation du prix indique que le gouvernement a convenu d'un marché de 500 millions de dollars alors que la contrepartie, compte tenu du prix des éléments retranchés du contrat initial et du coût des articles ajoutés, ne serait que de 282 millions de dollars. De plus, à notre avis, la documentation préparée pour permettre au gouvernement d'approuver le marché révisé aurait dû clairement indiquer que le nouveau prix de 500 millions de dollars incluait un élément constituant ce qu'il en coûtait à l'État pour mettre le marché en règle, pour régler les différends et les conflits passés entre les parties au marché et pour recevoir du maître d'œuvre une décharge officielle en ce sens. Même si il n'est pas possible de calculer le montant exact, notre examen des documents du Ministère et de la justification de prix et nos discussions avec la direction nous portent à conclure que le coût du règlement a été d'environ 200 millions de dollars.

24.13 Avant la redéfinition des paramètres de base, le Bureau de projet du CAATS s'est cantonné dans un rôle en grande partie réactif pour arrêter la définition des exigences. Il n'y avait pas de plan officiel pour faire en sorte que ce travail soit mené à terme, de façon ordonnée et dans les délais. Au moment de la redéfinition des paramètres de base, un nombre considérable de questions de conception importantes n'étaient pas réglées. Depuis la révision des paramètres de base, des équipes de projet intégrées ont été mises sur pied pour régler les questions de conception; la plupart de ces questions ont été réglées et le Bureau de projet a institué des pratiques officielles de surveillance du projet et de gestion des risques.

24.14 Les étapes critiques constituent un contrôle vital dans un projet de cette envergure. Cependant, dans ce projet, les étapes critiques ont pris une souplesse considérable. Nous sommes préoccupés à la fois par les pratiques passées, pour ce qui est de l'évaluation de l'exhaustivité des étapes critiques, et par la pratique de renégocier les étapes critiques chaque fois qu'une d'entre elles est ratée.

24.15 L'inspection est l'ensemble des activités qui permettent au Bureau de projet de conclure que le système livré répond au devis contractuel et peut être utilisé en toute sécurité. Le CAATS est un système où la sécurité est critique, ce qui rend les activités d'inspection beaucoup plus importantes.



Chapitre 24 – Points saillants

Partie I — Questions essentielles au succès

24.1 Pour concrétiser les retombées que promettent les grands systèmes d'information, il faut prendre des risques, mais les gérer efficacement. Sur les quatre projets que nous avons examinés cette année, un seul est assorti d'un processus efficace d'atténuation des risques, ce qui n'empêche pas de prévoir quand même des retards.

24.2 Nous avons concentré notre vérification sur les systèmes de prestation de services plutôt que sur les systèmes essentiellement administratifs sur lesquels notre examen a porté l'an dernier, et nous avons observé un grand nombre de problèmes qui sont les mêmes. Nous craignons que les investissements de l'ordre de trois milliards de dollars consentis pour ces projets ne donnent pas les résultats visés par le gouvernement.

24.3 Nous avons articulé notre rapport sur six questions qui nous sont apparues essentielles au succès des projets : la prise en charge du projet, la définition des exigences, l'amélioration des processus de développement de logiciels, l'établissement des priorités, la mesure de l'avancement d'un projet et la mise en oeuvre de nouvelles lignes directrices gouvernementales. Nous traiterons séparément, dans un rapport ultérieur, des questions d'acquisition de technologies de l'information.

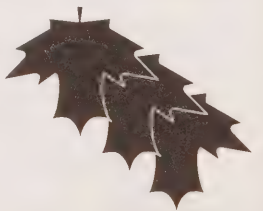
24.4 Nous estimons les dépassements de coûts à 250 millions de dollars pour des dépenses d'un milliard de dollars dans deux des projets. Il est urgent que la haute direction s'intéresse au développement des grands projets de technologie de l'information et y intervienne.

24.5 Il y a eu jusqu'à deux ans de retard dans certains échéanciers de livraison. Un grand facteur est que les ministères ont de la difficulté à préciser les exigences fonctionnelles du système. Compte tenu de la rapidité à laquelle les choses évoluent, les risques sont encore plus grands lorsque le gouvernement se lance dans des marchés à long terme à prix fixe pour répondre à des exigences qui sont essentiellement ambiguës, mal définies ou en constante évolution.

24.6 Dans les cas de développement de logiciels, les processus doivent être bien définis et bien gérés. Il existe des outils pour faciliter la définition et la gestion des risques, déterminer l'ampleur du projet et évaluer la capacité de le réaliser de l'organisation. Il faut les utiliser.

24.7 Pour éviter les retards à l'échéancier, les dépassements de coûts et l'atténuation des exigences initiales, il importe que la haute direction établisse, dès le début du projet, des priorités claires, réalistes et précises pour ce qui est du temps, du coût et des exigences, ainsi que des résultats à obtenir. Ces priorités doivent faire l'objet d'un examen à intervalles réguliers tout au long du projet.

24.8 Dans les projets que nous avons examinés, ou bien il n'y a pas eu de mesure de l'avancement des travaux, ou bien les mesures n'ont pas été utilisées de façon efficace pour déterminer l'avancement du projet, pour appuyer la prise de bonnes décisions de gestion et pour rendre compte du projet.



Vérificateur général adjoint : Shahid Minto
Vérificateur responsable : Keno Cyr

Chapitre 23 – Points saillants

23.1 Le gouvernement estime que plus de 17 000 employés partagent la responsabilité de la gestion du matériel. Ces employés influent directement sur les achats de biens et de services, qui représentent plus de 10 milliards de dollars par année, et sur la gestion du matériel qui appartient au gouvernement et qui est évalué à plus 50 milliards de dollars. De plus, le gouvernement estime qu'au bas mot, la valeur du matériel détenu dans les entrepôts se situe entre huit et dix milliards de dollars et que l'entretien lui coûte entre deux et 2,5 milliards de dollars par année.

23.2 Depuis 1980, nous avons relevé d'importantes lacunes dans les pratiques de gestion du matériel du gouvernement. La présente vérification a démontré que bon nombre de ces lacunes existent toujours.

23.3 Les systèmes d'information ministériels portant sur la gestion du matériel sont en général inadéquats. Nous nous sommes rendus compte que les lacunes les plus importantes étaient : la diversité et l'incompatibilité des systèmes, le manque d'information sur les coûts et le rendement de même que l'insuffisance des registres essentiels à la protection et au contrôle des biens publics. Puisque l'information sur les coûts est insuffisante, les coûts pertinents du matériel, y compris les coûts de possession des stocks, ne sont pas tous pris en considération lors de la prise de décisions concernant les achats et les stocks. Cette situation a entraîné une faible optimisation des ressources et le surstockage. Selon les estimations d'une étude de la Défense nationale effectuée en 1996, la valeur totale des stocks de ce seul ministère était de 8,55 milliards de dollars et la valeur des stocks excédentaires était de 1,7 milliard de dollars, si on se base sur l'utilisation totale prévue au cours des quatre prochaines années.

23.4 Nous croyons que le Secrétaire du Conseil du Trésor ne dispose pas de toute l'information dont il a besoin pour bien surveiller les ministères et les mettre sur la bonne voie. À notre avis, le cadre stratégique et de gestion du matériel dans les ministères ne contient pas les éléments essentiels d'une relation redditionnelle efficace.

23.5 Le recours à la Direction de la distribution des biens de l'État, une section de Travaux publics et Services gouvernementaux Canada, est toujours nécessaire pour l'aliénation des biens de l'État, en dépit des initiatives que le gouvernement a prises en 1992 pour améliorer le processus et permettre aux ministères d'utiliser des méthodes d'aliénation facultatives. Nous avons relevé plusieurs cas où des ministères avaient agi de la sorte et obtenu des recettes supérieures, plus rapidement et à un coût moindre.

23.6 La plupart des ministères admettaient récemment que leurs pratiques de gestion du matériel posaient des problèmes et, en partie à cause de ressources réduites, ils ont commencé à effectuer des changements importants afin de combler les lacunes du passé. Selon une étude du Conseil du Trésor effectuée en 1995, certaines hypothèses laissaient croire que l'élimination des stocks non requis pourrait entraîner des économies annuelles d'environ 1,25 milliard de dollars. Nous avons relevé de nombreuses initiatives ministérielles qui auraient pu réduire les stocks excédentaires en 1995, néanmoins il est encore possible de réaliser d'importantes économies. L'étendue et l'orientation des nombreuses initiatives ministérielles en cours nous donne espoir. Toutefois, il serait trop tôt d'évaluer leur efficacité finale et nous nous demandons si les ministères continueront les initiatives amorcées tel que prévu et quels en seront les résultats. Si les résultats souhaités ne sont pas obtenus, des centaines de millions de dollars risquent d'être perdus.

Lieux contaminés fédéraux — L'information de gestion sur les coûts et les passifs environnementaux

*Le commissaire à l'environnement
et au développement durable : Brian Emmett
Vérificateurs responsables : Wayne Cluskey et Dan Rubenstein*

Chapitre 22 – Points saillants

- 22.1** Le gouvernement fédéral ne dispose pas d'un tableau complet des risques, des coûts et des passifs environnementaux liés aux lieux contaminés dont il est responsable. Certaines estimations établissent la part du fédéral à deux milliards de dollars, sans les coûts de gestion des déchets radioactifs. Le gouvernement n'est pas en mesure d'évaluer de façon satisfaisante les risques pour la santé, la sécurité et l'environnement, ni d'établir le calendrier et les coûts de la dépollution des lieux contaminés fédéraux.
- 22.2** Actuellement, le gouvernement ne s'est pas fixé de délai pour dresser un tableau complet de la mesure dans laquelle ses terres ont été contaminées par divers polluants, qui peuvent aller de munitions qui n'ont pas explosé à des produits pétroliers.
- 22.3** Les ministères ont fait un pas dans la bonne direction, et certains progrès ont été enregistrés au cours des cinq dernières années. Toutefois, les progrès réalisés sont inégaux. Si l'on se fie aux progrès signalés par 12 ministères, il pourrait falloir à l'ensemble des ministères au moins dix autres années pour finir de recenser, d'évaluer et de dépolluer les lieux contaminés dont ils sont responsables. Nous craignons que certains ministères aient établi des calendriers trop optimistes.
- 22.4** Le gouvernement se doit d'établir des normes minimales « de diligence raisonnable » pour déterminer les risques possibles que présentent les terres de l'État contaminées et les mesures de dépollution appropriées. (L'obligation de diligence raisonnable est un concept de droit selon lequel les activités ont été entreprises avec l'attention et le soin exigés par la loi ou généralement acceptés comme étant appropriés.)
- 22.5** L'estimation des coûts et la communication périodique de l'information sur les lieux contaminés doivent être améliorées de manière que les parlementaires, les gestionnaires et le public puissent disposer d'un tableau réaliste de l'étendue des risques possibles pour l'environnement et la santé, et des coûts.
- 22.6** Il faut une méthode centrale plus logique et plus cohérente à l'égard de la gestion des lieux contaminés qui fonde partie du portefeuille des terres de l'État. Il faut une certaine forme de leadership central pour l'établissement de pratiques, de politiques et de protocoles communs qui permettront de faire en sorte que les rares ressources soient affectées systématiquement aux lieux contaminés qui présentent le plus de risques. Le dilemme que le gouvernement n'a pas réussi à régler sur le plan de la régie est celui d'assurer l'uniformité et la cohérence sans créer de nouvelles structures centrales.





Vérificateur général adjoint : R.C. Thompson
Vérificateur responsable : Brian Pearce

Chapitre 21 – Points saillants

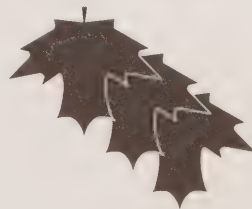
21.1 Au 31 mars 1995, le gouvernement du Canada a déclaré un passif total de 583 milliards de dollars, dont 438 milliards de dollars empruntés sur les marchés financiers. Les parlementaires, et les Canadiens en général, ont le droit de s'attendre à ce que cette énorme dette soit gérée professionnellement et selon les principes de l'optimisation des ressources. L'étude, dont nous vous présentons les résultats dans ce chapitre, constitue la première étape d'un examen de la gestion de la dette publique par notre Bureau, qui s'étendra sur plusieurs années.

21.2 Notre étude permet de croire que, dans le contexte du fardeau de la dette qui continue de croître rapidement et qui est déjà extrêmement lourd, il faut, en priorité, chercher à minimiser les risques associés aux hausses des taux d'intérêt. Il faut pour cela un équilibre adéquat des instruments d'emprunt à court terme et des instruments d'emprunt à long terme. En général, les emprunts à long terme offrent des taux d'intérêt stables mais, éventuellement, des frais d'intérêt plus élevés dans le temps; les instruments d'emprunt à court terme peuvent offrir des taux d'intérêt moins élevés, mais ils sont aussi plus volatiles.

21.3 Nous avons constaté que l'approche adoptée par le gouvernement fédéral pour ses emprunts sur les marchés financiers se compare à celle des autres emprunteurs souverains importants.

21.4 Nous avons également observé que le gouvernement élabore des politiques et des procédures de gestion des risques plus strictes pour tenir compte de la complexité croissante des activités sur les marchés. De plus, en 1992, le gouvernement a commencé à évaluer plus rigoureusement la mesure dans laquelle ses objectifs en matière de gestion de la dette sont atteints.

21.5 Au cours de nos prochaines vérifications, nous évaluerons les progrès réalisés sur ces importantes questions et nous choisirons d'examiner plus en détail d'autres activités importantes de gestion de la dette.



Chapitre 20 – Points saillants

20.1 Depuis 1992, les deux ministères de Douanes et Accise et de l'Impôt, qui étaient séparés autrefois, ont été regroupés en un seul ministère, Revenu Canada. Pour notre vérification de « l'unification administrative » de Revenu Canada, nous avons choisi trois aspects nous permettant de juger du succès de l'entreprise :

- la gestion ministérielle de l'unification administrative;

- l'instauration d'un numéro d'entreprise unique pour chaque entreprise;

- l'ouverture des « guichets d'affaires » (points de service) dans l'ensemble du pays.

20.2 Notre examen nous a permis de constater que, pour ces trois aspects, il y avait de bonnes méthodes communes qui ont aidé au succès de la mise en oeuvre. Parmi ces méthodes mentionnons :

- une vision globale et des principes clairs pour guider le processus;
- l'engagement et la participation de la haute direction;
- une bonne communication avec les groupes intéressés et les employés à tous les niveaux;
- une bonne gestion des projets.

Ces méthodes ont été particulièrement importantes, compte tenu des difficultés particulières de l'unification administrative, y compris un cadre législatif incertain et le défi que représentait la combinaison de diverses cultures professionnelles.

20.3 Il peut encore y avoir amélioration dans un certain nombre de domaines, y compris les niveaux de service et la classification des employés reliés au secteur des guichets d'affaires. Le projet de numéro d'entreprise va aussi faire face à un défi de taille en janvier 1997, alors que toutes les entreprises qui ne l'ont pas fait seront tenues de se convertir au nouveau système.

20.4 L'unification administrative a été et continue d'être une tâche stimulante et, dans l'ensemble, elle a bien été gérée par le Ministère. Globalement, en ce qui concerne les aspects examinés, nous en venons à la conclusion que l'unification administrative établit une fondation solide pour :

- des opérations rationalisées;
- un service amélioré;
- une meilleure observation.

L'unification administrative a aussi rendu possible de nouvelles façons d'utiliser et d'intégrer les renseignements à la fois à l'interne et en collaboration avec d'autres paliers de gouvernement.

Chapitre 19 – Points saillants (suite)

19.6 Bien que la prestation fiscale pour enfants et le crédit pour TPS fassent partie des principales composantes du secteur d'activité de Revenu Canada touchant la redistribution des revenus, le Parlement reçoit bien peu d'information sur le rendement du Ministère et sur ses priorités dans l'administration des deux programmes. Les quelques renseignements sur ces deux programmes contenus dans la Partie III du *Budget des dépenses* du Ministère auraient avantage à être étoffés et améliorés.



Chapitre 19 – Points saillants

19.1 Revenu Canada administre deux programmes sociaux clés, soit le crédit pour taxe sur les produits et services et la prestation fiscale pour enfants. Les deux sont réalisés dans le cadre du régime fiscal. Avant septembre 1995, Revenu Canada et Développement des ressources humaines Canada (DRHC) administraient conjointement le programme de prestation fiscale pour enfants. DRHC avait la responsabilité de déterminer l'admissibilité de base et Revenu Canada était chargé de tous les autres aspects du programme.

19.2 Chaque année, près de huit milliards de dollars en prestations libres d'impôt sont versés à plus de huit millions de bénéficiaires. Dans la plupart des cas, il s'agit de familles à revenu faible ou modique.

19.3 Revenu Canada a dû, dans le court délai d'exécution qu'il avait, relever le défi ambitieux de lancer le programme du crédit pour TPS (en 1990) et celui de la prestation fiscale pour enfants (en 1993) à temps pour respecter les échéances prévues par la loi. Dans le cas de la prestation fiscale pour enfants, le défi a été relevé de concert avec DRHC. Malgré certaines lacunes de taille dans les systèmes initiaux, nous avons été impressionnés par la capacité des deux ministères de faire connaître les programmes et de respecter les délais fixés par la loi. Depuis le lancement de ces programmes, des millions de familles et de particuliers touchent des versements mensuels ou trimestriels de prestations sociales. À ce jour, plus de 30 milliards de dollars ont été ainsi versés.

19.4 Revenu Canada a cherché à améliorer ses services et à réduire ses coûts en rationalisant ses processus administratifs. Malgré certains succès, nous estimons que l'administration de ces programmes soulève quatre problèmes particuliers. Premièrement, nous avons constaté qu'il y avait certains aspects clés de la réalisation des programmes où il faudrait grandement améliorer le service, notamment celui de l'accès au Ministère par téléphone et celui du traitement des demandes de prestation fiscale pour enfants. Deuxièmement, il y aurait lieu de renforcer considérablement l'environnement de contrôle afin de fournir une assurance raisonnable que seules les personnes qui y ont droit reçoivent des prestations et que le montant en est exact. (C'était également le cas de DRHC durant la période où il assumait la responsabilité de déterminer l'admissibilité de base au programme de la prestation fiscale pour enfants, c'est-à-dire jusqu'en août 1995.) Troisièmement, Revenu Canada n'a pas élaboré de stratégie officielle en vue de détecter les fraudes et les abus dans les programmes ou de les prévenir. Quatrièmement, le Ministère n'exerce pas sur les programmes une surveillance qui lui permettrait de savoir si le montant total des sommes versées en vertu de chaque programme est dans l'ensemble raisonnable, compte tenu des changements dans les caractéristiques de la population et dans la structure des familles. Notre analyse des statistiques sur le programme en regard de données indépendantes sur les principales variables laisse entrevoir de graves problèmes qui exigeraient une attention immédiate.

19.5 Le ministère des Finances est chargé d'évaluer dans quelle mesure la politique relative aux programmes donne les résultats souhaités. En dépit de leur importance sur le plan social et des sommes en cause, le rendement de ni l'un ni l'autre programme n'a fait l'objet d'une évaluation en fonction des objectifs énoncés. En outre, aucune évaluation de l'un ou de l'autre n'est prévue dans le plan triennal actuel du ministère des Finances.

Revenu Canada et le ministère des Finances

Les droits et les taxes d'accise sur certaines marchandises

Vérificateur général adjoint : Shahid Minto
Vérificateurs responsables : Jim Ralston et Michael Adibe



Chapitre 18 – Points saillants

18.1 En 1994-1995, les droits et les taxes d'accise ont généré quelque 6,9 milliards de dollars, soit 6 p. 100 des recettes fédérales brutes. De ces recettes, 98,4 p. 100 provenaient des marchandises visées par notre vérification, soit le tabac, l'alcool, le carburant et les bijoux. Selon différentes estimations, ces recettes de l'accise auraient pu atteindre jusqu'à 500 millions de dollars de plus n'eût été de l'évasion fiscale.

18.2 Dans le cadre de son Initiative anticontrebande de 1994, le gouvernement a réduit les taxes sur le tabac et a augmenté les ressources consacrées à l'exécution. Malgré la réduction des taxes et les mesures d'exécution énergiques et coordonnées de Revenu Canada et de la Gendarmerie royale du Canada (GRC), l'évasion des taxes à la consommation persiste. Un nouveau problème, la contrebande de cigarettes entre les provinces, a fait surface en raison des différences dans le prix des cigarettes entre les provinces qui ont réduit leurs taxes sur le tabac en réaction à la stratégie fédérale visant à combattre la contrebande du tabac et les provinces qui ne l'ont pas fait.

18.3 Le plan budgétaire de 1994 prévoyait que l'Initiative anticontrebande entraînerait des coûts fiscaux de 300 millions de dollars en 1994-1995 quant aux recettes provenant de la taxe sur le tabac. Les recettes fédérales découlant des taxes sur le tabac ont baissé de plus de 600 millions de dollars en 1994-1995 par rapport à 1993-1994. L'analyse du ministère des Finances n'a pas encore permis de déterminer dans quelle mesure cette baisse est attribuable à la réduction du taux des taxes, à l'évasion ou à un changement dans la demande en produits du tabac.

18.4 La nature inhérente de l'évasion ainsi que ses causes sous-jacentes doivent être analysées plus régulièrement dans le but d'obtenir des renseignements courants utiles à l'élaboration de solutions politiques et administratives. En outre, étant donné le risque potentiellement élevé de pertes de recettes découlant de l'évasion de la taxe sur le carburant (qui génère la plus grande partie des recettes fédérales provenant de l'accise), Revenu Canada et les Finances doivent évaluer de façon systématique l'ampleur de l'évasion de la taxe sur ce produit.

18.5 Au cours des cinq dernières années, Revenu Canada n'a effectué aucune vérification de la taxe d'accise à l'égard de la plupart des titulaires de licence importants (qui versent la plus grande partie des taxes d'accise) et risque ainsi de ne pas percevoir des montants considérables en recettes puisque les vérifications sont frappées de prescription après quatre ans. Le Ministère est conscient de cette situation et prévoit la corriger.

18.6 Revenu Canada maintient à jour des informations globales de haut niveau comme, par exemple, les recettes totales ainsi que le nombre et la valeur des saisies. Le ministère des Finances analyse les données de haut niveau obtenues de Revenu Canada ainsi que de Statistique Canada, de la GRC et d'autres sources dans le but de contrôler les recettes de l'accise. Cependant, Revenu Canada ne recueille pas régulièrement les renseignements détaillés nécessaires pour contrôler et évaluer son efficacité et son efficacité quant à l'administration des taxes à la consommation, pour rendre des comptes à cet égard et pour appuyer les activités de contrôle des Finances.

18.7 Au cours des 21 dernières années, les Finances et Revenu Canada ont mené des études et des examens de la Loi sur l'accise qui ont fait ressortir la nécessité de réviser la Loi. Les deux ministères effectuent actuellement un autre examen conjoint. Il importe que cet examen soit terminé rapidement puisque le délai retarde la mise en oeuvre des changements nécessaires et d'autres améliorations souhaitées quant à la Loi et à son application.

Chapitre 17 – Points saillants (suite)

17.10 Notre vérification n'a pas tenté de déterminer si le RPC est un meilleur régime que le Régime des rentes du Québec (RRQ), que ce soit du point de vue des prestataires ou de celui des cotisants. Selon la Loi sur le *Régime de pensions du Canada* des prestations comparables doivent être offertes par le RPC et le RRQ. La Loi permet à une province de ne pas souscrire au RPC lorsqu'elle institue un régime général de pensions qui prévoit le paiement de prestations comparables à celles du RPC. Selon l'administration du RPC, au fil des ans, des changements tant au RPC qu'au RRQ ont amené des différences qui ont tantôt élargi l'écart entre ces deux régimes. Il importe donc d'évaluer les différences entre les régimes et de prendre les mesures correctives nécessaires. Des différences importantes entre les programmes d'invalidité des deux régimes ont été relevées et peuvent expliquer la disparité croissante entre les taux d'utilisation.

17.11 Nous admettons d'emblée qu'il est difficile de prendre des décisions en matière d'invalidité. Toutefois, il faut tout faire pour atténuer l'aspect subjectif du processus. Dans le contexte de la régionalisation, une surveillance plus étroite et des directives adéquates aideraient les évaluateurs à prendre des décisions justes et uniformes. Des contrôles plus serrés de la qualité des décisions et une importance accrue accordée aux contrôles opérationnels, comme les réévaluations, réduiraient le risque que des prestations soient versées à des personnes qui n'y ont plus droit. Il est important que la direction du RPC se dote de mesures de contrôle adéquates visant à garantir que seules les personnes admissibles sont acceptées ou continuent de recevoir des prestations et que tous les prestataires sont traités équitablement, conformément à la Loi.

17.12 Nous reconnaissons que les questions soulevées dans ce chapitre seront difficiles à régler et qu'elles ne peuvent toutes être réglées en même temps. Le personnel qui administre le RPC-Invalidité profiterait d'un plan d'action complet qui déterminerait le cadre de responsabilité, les priorités, les responsabilités et les ressources nécessaires. Un tel plan susciterait une vision commune des questions. Le nombre de recommandations proposées suppose que des ressources additionnelles pourraient être requises, bien que la réussite de nombreux projets dépende dans une large mesure de la mise en œuvre simultanée d'autres projets. Cependant, nous sommes convaincus qu'il est possible de réduire sensiblement les coûts du programme si l'on consent des efforts supplémentaires pour améliorer l'administration du RPC-Invalidité et ce, sans porter préjudice aux requérants qui rencontrent les critères d'admissibilité du Régime.

Chapitre 17 – Points saillants (suite)

- la révision des lignes directrices sur la détermination de l'invalidité;
- l'amélioration des communications avec les clients;
- l'amélioration du programme de réévaluation.

La direction du RPC commence à mieux cerner les causes de la croissance des prestations d'invalidité. Le nombre de prestataires a diminué récemment, pour la première fois depuis plusieurs années. Plusieurs des nouvelles initiatives sont prometteuses pour l'avenir. Les efforts déployés pour améliorer la situation méritent d'être soulignés. Il est encore trop tôt, cependant, pour que le Bureau puisse commenter le succès de ces tentatives puisque le nombre de cas en appel a augmenté régulièrement à tous les niveaux durant cette même période.

17.5 Au fil des ans, les lignes directrices ont eu une incidence importante sur les coûts, ce qui se reflète à la fin sur le taux de cotisation projeté à long terme. Pour toute modification législative, il faut prévoir une étude d'impact sur les taux de cotisation et des consultations formelles avec les provinces. Or, des changements importants aux pratiques relatives à l'admissibilité au RPC-Invalidité ont été introduits par le passé sans une évaluation adéquate des coûts prévus ni une analyse de l'impact actuariel, ce qui soulève chez nous de vives préoccupations.

17.6 Le coût réel des prestations d'invalidité dépasse les estimations actuarielles pour la période à l'étude, jusqu'en 1995. Les rôles et responsabilités du RPC et de l'actuaire en chef du Bureau du surintendant des institutions financières afin d'assurer la fiabilité et l'intégrité des données utilisées pour les projections actuarielles ne sont pas clairement définis. À notre avis, le Ministère gagnerait par ailleurs à pouvoir compter sur sa propre expertise actuarielle pour améliorer l'échange d'information opérationnelle et stratégique.

17.7 Créé en 1966, le Régime de pensions du Canada est un régime d'assurance sociale à cotisation obligatoire, dont l'objectif est d'assurer la protection des travailleurs canadiens et de leur famille contre la perte de revenus résultant de la retraite, de l'invalidité grave et prolongée et du décès. Le RPC-Invalidité fournit, en moyenne, près de la moitié des revenus des prestataires, dû au fait que certains organismes réduisent leurs prestations du montant des prestations d'invalidité versées par le RPC. Cela place généralement le Régime dans une position de premier payeur.

17.8 Il y a peu d'échange d'information entre le RPC, les régimes provinciaux et les assureurs privés sur l'expertise médicale, les décisions rendues, la réadaptation, le suivi et les cessations de paiements aux prestataires qui reçoivent des prestations de plus d'un de ces organismes. Toutefois, la Loi sur le Régime de pensions du Canada, qui régit la diffusion d'information, limite considérablement l'échange d'information. Comme la coordination est limitée, les prestataires doivent souvent fournir les mêmes renseignements à plusieurs régimes, entraînant ainsi des efforts et des coûts inutiles. Une meilleure coordination des régimes non seulement améliorerait le service, mais encore réduirait les dépenses de tous les régimes.

17.9 De récentes études d'évaluation nous ont fourni des données utiles sur les prestataires et sur d'autres modes de prestation de l'assurance-invalidité publique. Règle générale, elles abordaient des questions et des problèmes pertinents de façon exhaustive. Le rapport provisoire de l'évaluation fait état d'un certain nombre de propositions visant à améliorer l'évaluation de l'admissibilité et le processus d'appel. Le RPC-Invalidité n'a pas d'objectifs clairement définis, ce qui a généré la mesure du succès du programme. Plus de discussion et de clarification sur ce que l'on attend du RPC-Invalidité serait souhaitable. De plus, il est essentiel de colliger plus de données, pour combler le manque important d'information sur le rendement du programme. Le Ministère n'a pas encore pris suffisamment de mesures pour combler ces lacunes.



Chapitre 17 – Points saillants

17.1 Nous avons examiné si les pratiques de gestion liées à l'évaluation de l'admissibilité aux prestations du Régime de pensions du Canada (RPC) sont adéquates. Notre examen portait également sur la mesure des résultats du programme et l'information communiquée sur l'atteinte des objectifs. Les observations et les recommandations formulées dans ce chapitre portent sur les améliorations à apporter.

17.2 Au cours des dix dernières années, les prestations d'invalidité versées au titre du RPC ont plus que triplé, grimpaient de 841 millions de dollars en 1986–1987 à près de trois milliards de dollars en 1995–1996. Le nombre de prestataires a presque doublé au cours de la même période, passant de 155 000 à 300 000. L'augmentation du coût des prestations d'invalidité a eu un impact important sur l'augmentation du plus récent taux par répartition projeté.

17.3 Il y a lieu d'améliorer de façon importante les pratiques de gestion reliées à l'admissibilité aux prestations d'invalidité. De plus, la direction du RPC ne dispose pas de données complètes et pertinentes pour lui permettre d'assurer une gestion économique de l'admissibilité. Nous avons constaté que :

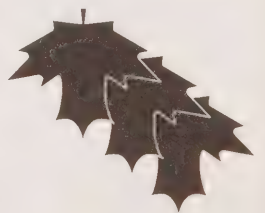
- les systèmes d'information de gestion sont limités et ne permettent pas de réaliser des analyses fiables. Les écarts entre les prévisions actuarielles et les résultats réels n'ont pas été étudiés ni communiqués de façon régulière;
- l'évaluation des demandes est bien souvent fondée sur l'information présentée par les requérants et leurs médecins. Aucune analyse n'est effectuée pour déterminer à quelle étape du processus il serait plus économique d'obtenir d'autres renseignements;
- le contrôle de la qualité nécessaire pour accroître la fiabilité des décisions relatives aux demandes de prestations d'invalidité n'est ni formel ni systématique;
- l'incidence des lignes directrices sur le nombre et le profil des nouvelles demandes acceptées n'est pas déterminée;
- peu de prestataires sont soumis à une réévaluation de leur dossier pour déterminer s'ils sont toujours admissibles aux prestations;
- les échanges d'information entre le RPC et les autres régimes d'invalidité sont restreints.

17.4 Au cours de la dernière décennie, le RPC a connu une augmentation sans précédent du nombre de demandes de prestations d'invalidité, tout comme d'autres régimes publics et privés d'assurance-invalidité. L'administration du RPC a réalisé une étude pour déterminer les causes de l'augmentation, sans toutefois chercher à les quantifier. Plusieurs mesures ont été prises en réponse aux préoccupations soulevées par l'étude, dont :

- de nouvelles mesures incitatives visant à réduire les obstacles à l'emploi des prestataires du RPC-Invalidité;

Secrétariat du Conseil du Trésor

Le renouvellement des services gouvernementaux à l'aide des technologies de l'information



Vérificateur général adjoint : David H. Roth
Vérificatrice responsable : Nancy Cheng

Chapitre 16 – Points saillants

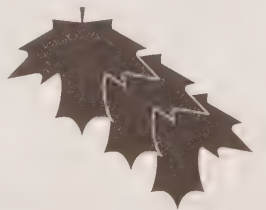
16.1 Les sommes que le gouvernement consacre aux technologies de l'information, y compris les coûts relatifs au capital, au fonctionnement, au personnel et d'autres coûts connexes, représentent un investissement substantiel de plus de trois milliards de dollars par année. Il est reconnu que l'utilisation judicieuse des technologies de l'information est une condition préalable du renouvellement des services gouvernementaux.

16.2 Nous avons examiné deux séries d'initiatives liées au *Plan directeur pour le renouvellement des services gouvernementaux à l'aide des technologies de l'information*. Nous avons constaté que la mise en oeuvre du *Plan directeur* commence à produire un effet d'impulsion et que le partage des systèmes administratifs progresse de façon visible. Nous avons en même temps relevé plusieurs secteurs où des améliorations pourraient être apportées. À titre d'exemple, nous avons constaté que le Secrétariat du Conseil du Trésor met l'accent sur la présentation de l'état d'avancement des projets pilotes et non sur les résultats obtenus. La présentation des résultats pourrait encourager la participation des ministères et maintenir l'impulsion actuelle. L'élaboration et la mise en oeuvre des activités de gestion des réseaux gouvernementaux doivent se faire plus rapidement afin d'appuyer le partage et l'interfonctionnement des systèmes. Nous avons relevé quelques leçons tirées de l'utilisation des fonds affectés aux technologies pour encourager le partenariat et l'utilisation novatrice des technologies de l'information.

16.3 D'importants progrès ont été accomplis depuis la création au Secrétariat, en 1993, du poste de Dirigeant principal de l'informatique. La publication, en 1994, du *Plan directeur* a constitué un jalon important pour l'adoption d'un plan concernant les technologies au gouvernement. En outre, le recours à une structure de comité interministériel et à des groupes de travail connexes a favorisé le dialogue et la coopération au sein des communautés des technologies de l'information et des utilisateurs au gouvernement.

16.4 Et pourtant, de nombreux défis doivent encore être relevés. Pour exploiter et intensifier l'impulsion actuelle donnée au soutien du renouvellement des services, le Secrétariat doit assurer la régie et la reddition de comptes par une surveillance stratégique, sans toutefois mettre en danger le processus de recherche de consensus, qui favorise la coordination horizontale et la coopération entre les directions organiques des ministères.

Les activités fédérales dans le domaine des sciences et de la technologie — Suivi



Vérificateur général adjoint : Robert L. Lalonde
Vérificateurs responsables : Richard Flageole et Jacques Goyer

Chapitre 15 – Points saillants

15.1 Le gouvernement fédéral a publié en mars 1996 le document intitulé *Les sciences et la technologie à l'aube du XXI^e siècle — La stratégie fédérale*. La *Stratégie* était accompagnée de plans d'action ministériels et du *Cadre de gestion des ressources humaines de la communauté scientifique et technologique fédérale*. Ces initiatives, qui visent à répondre à certaines préoccupations générales soulevées dans notre rapport de 1994, constituent des étapes importantes dans la bonne voie.

15.2 Nous avons constaté que les ministères et organismes à vocation scientifique progressent bien pour ce qui est de cibler leurs activités scientifiques et technologiques et de fixer leurs priorités. Bien que des priorités à l'échelle de l'administration fédérale n'aient pas été énoncées, un mécanisme a été établi pour faire des recommandations au Cabinet à cet égard. De plus, la *Stratégie* donne une direction aux ministères et organismes sous la forme de principes de travail et d'orientations qui devront sous-tendre un grand nombre d'aspects de leurs activités scientifiques et technologiques. Le défi sera de s'assurer que ces principes et ces orientations deviennent partie intégrante de la gestion quotidienne des activités des organisations à vocation scientifique.

15.3 La *Stratégie* reconnaît qu'il est important que les ministères et organismes travaillent ensemble et s'attachent à accroître la coopération et la coordination intergouvernementales. Diverses initiatives sont également en cours afin d'améliorer l'évaluation des résultats et de l'incidence des activités scientifiques et technologiques du gouvernement fédéral, et de communiquer de l'information sur la croissance de l'économie du savoir au Canada.

15.4 Les éléments positifs du *Cadre* de gestion du personnel scientifique comprennent la consultation ainsi que la participation d'un nombre important de parties intéressées, la direction donnée aux groupes de travail par les cadres des ministères à vocation scientifique afin de maximiser l'engagement et le sens d'appartenance, ainsi que des attentes clairement formulées en ce qui concerne les résultats. Les personnes que nous avons interviewées sont d'avis que les travaux en cours portent sur des questions d'une grande importance et que, si la mise en œuvre des recommandations est couronnée de succès, il se pourrait qu'un grand nombre de questions que nous avons soulevées en 1994 soient résolues. Notons, par exemple, le renouvellement systématique du personnel scientifique et le maintien du capital de compétences et de connaissances des établissements de recherche. D'autres initiatives menées parallèlement au *Cadre*, par exemple, les modifications de la Directive sur le réaménagement des effectifs, ont eu aussi des effets positifs.

15.5 Bien que nous notions des progrès, nous éprouvons toutefois certaines inquiétudes, notamment au sujet de l'absence d'un forum où l'on partagerait les « meilleures pratiques » et du peu d'attention accordée à la mesure du rendement et au mécanisme de communication de l'information relatif à la gestion du personnel scientifique.

15.6 Nonobstant les progrès faits jusqu'ici à propos de la *Stratégie* et du *Cadre*, la mise en œuvre représente le véritable défi. C'est pourquoi nous sommes d'avis que le gouvernement doit prêter une attention particulière à l'établissement de plans de mise en œuvre par étape axés sur les résultats pour la *Stratégie* et le *Cadre*. Le gouvernement doit aussi s'assurer que la responsabilité de l'atteinte des résultats sera clairement établie. La mise en œuvre exigera du leadership et de la persévérance de la part de tous les échelons de gouvernement — des ministères aux scientifiques. La surveillance par le Parlement doit aussi se poursuivre.



Vérificatrice générale adjointe : Maria Barrados
Vérificatrice responsable : Theresa Duk

Chapitre 14 – Points saillants

14.1 Le gouvernement fédéral assure directement au public de nombreux services, qu'il s'agisse d'émettre des passeports, de répondre à des demandes de renseignements sur l'impôt, ou encore de traiter des demandes d'assurance-emploi. Cependant, des études récentes continuent de montrer que les Canadiens demeurent généralement insatisfaits des services fédéraux.

14.2 En 1990, le gouvernement s'est engagé à établir des normes de service et à rendre compte de son rendement à cet égard. Les normes de service indiqueraient clairement la qualité du service que les Canadiens peuvent s'attendre de recevoir, sur les plans de la rapidité, de l'accessibilité et de l'exactitude. Au départ, l'objectif du gouvernement était le suivant : la publication, par les principaux services, de normes en mars 1994 et la production de rapports sur le rendement en 1994-1995. L'échéance a ensuite été reportée à la fin de 1995.

14.3 Notre vérification de 13 services fort visibles a révélé que les attentes du gouvernement ne se sont pas réalisées. Bien que bon nombre des 13 services aient mis en place au 31 mars 1996 certains éléments du concept, aucun d'entre eux n'avait mis en oeuvre de normes de service répondant à toutes les exigences.

14.4 Pour concevoir des normes de service et des plans d'amélioration adéquats, il faut tout d'abord recueillir de l'information sur les priorités des clients. Parmi les services que nous avons vérifiés, seulement la moitié environ avaient recueilli de l'information sur les priorités de leurs clients et leur importance relative. Un nombre encore plus faible avait évalué la satisfaction de leurs clients relativement à chacune de leurs priorités. Cette connaissance est importante; il ne sert à rien de déployer beaucoup d'efforts dans des domaines jugés par les clients peu prioritaires et très satisfaisants alors que des efforts dans des domaines jugés fortement prioritaires et insatisfaisants pourraient bien d'avantage. Nous avons constaté également que de nombreux services n'avaient pas déterminé les coûts entiers de la prestation de leurs services. L'information sur les coûts aide à garantir que les clients des services gouvernementaux reçoivent des services de grande qualité à un coût abordable.

14.5 Les services téléphoniques sont un mode important et croissant de communication entre les Canadiens et le gouvernement — les six services que nous avons examinés recevant plus de 30 millions d'appels par année. Cependant, l'amélioration de la qualité des services téléphoniques s'impose. Dans un ministère, nous avons constaté qu'au cours des périodes de pointe, les personnes qui appellent se heurtent à des lignes occupées dans 19 cas sur 20. Peu de ministères vérifient le taux d'exactitude de l'information que leurs agents donnent aux personnes qui appellent — un ministère qui le fait a constaté que le taux d'exactitude était de 60 à 80 p. 100. Nous pensons que les ministères peuvent et doivent appliquer des normes de service pour corriger ces problèmes qui persistent.

14.6 Il reste beaucoup à faire dans le domaine des normes de service, et il faut des efforts soutenus. Les sous-ministres doivent assurer le leadership pour garantir que leurs ministères concentrent suffisamment d'efforts sur les principaux services et suivent des plans appropriés pour élaborer des normes de service et les mettre en oeuvre. Jusqu'à maintenant, le Parlement n'a reçu que peu d'information indiquant clairement les progrès réalisés par rapport aux objectifs de mise en oeuvre. Le gouvernement doit améliorer l'information qu'il communique au Parlement sur cette question importante.

Étude sur les pratiques de reddition des comptes — Point de vue des Premières nations

Vérificatrice générale adjointe : Maria Barrados
Vérificateur responsable : Ronnie Campbell



Chapitre 13 – Points saillants

13.1 Les relations entre le gouvernement fédéral et les Premières nations évoluent, mais la question de la reddition des comptes continue de soulever des difficultés pour toutes les parties. Dans les comptes qu'il rend au Parlement, le gouvernement doit faire état des activités entreprises et des résultats obtenus. Ces relations se compliquent souvent lorsqu'on fait appel à des tiers pour exécuter des activités dont le gouvernement garde la responsabilité.

13.2 La présente étude met l'accent sur les points de vue d'un groupe de l'une des parties en cause, les Premières nations. Elle a pour objet d'améliorer notre connaissance de la situation et de favoriser la recherche de solutions. Le Bureau entend miser sur cette connaissance et tenir compte des leçons apprises pour ses vérifications et études futures des relations entre les Premières nations et le gouvernement.

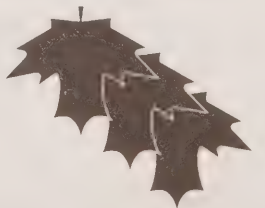
13.3 L'étude est fondée sur des entrevues menées auprès de neuf Premières nations et d'un conseil tribal, que le ministère des Affaires indiennes et du Nord canadien considèrerait comme étant bien gérés. Même si un cadre juridique général régit les rapports entre les Premières nations et le gouvernement et même si les Premières nations ont des obligations envers leurs propres collectivités, la discussion a surtout porté sur l'interaction quotidienne entre les Premières nations et les ministères gouvernementaux. Les pratiques de gestion des Premières nations et du gouvernement qui, de l'avis des participants, pouvaient être améliorées, ont fait l'objet de longues discussions.

13.4 Les participants ont reconnu l'importance d'une bonne reddition des comptes et ils ont énoncé clairement les facteurs qui sont essentiels à cette fin. Par exemple, les participants estiment qu'il est indispensable que les Premières nations et le gouvernement aient des objectifs clairs et communs, que la vérification réponde aux besoins de leurs collectivités ainsi qu'à ceux du gouvernement et que l'accent soit mis sur les résultats plutôt que sur les processus. Ensemble, ces facteurs cadrent avec la plupart des définitions de la reddition des comptes. Dans un domaine aussi complexe et litigieux que celui-ci, il est encourageant de voir que les Premières nations participantes ont des opinions qui semblent, dans une certaine mesure, être compatibles avec ces définitions.

13.5 Toutefois, les participants ont bien fait sentir l'importance de la réciprocité comme élément essentiel de la reddition des comptes. La plupart des commentaires formulés parlaient de reddition des comptes entre partenaires ou égaux. En général, la reddition des comptes au gouvernement est considérée comme une relation hiérarchique où intervient un délégué, qui délègue la responsabilité à quelqu'un d'autre, le délégué. Il est clair qu'il existe une différence considérable entre ce concept et celui que les participants considéraient comme mieux adapté à leurs besoins.

13.6 Même si les participants sont d'avis que la situation actuelle est insatisfaisante, bon nombre d'entre eux sont optimistes et estiment que des progrès sont possibles. Ils reconnaissent qu'eux-mêmes, aussi bien que les fonctionnaires du gouvernement, travaillent dans des circonstances difficiles et incertaines. La présente étude constitue une étape en vue de favoriser un dialogue accru avec le gouvernement et les Premières nations alors qu'ils élaborent des moyens pratiques de resserrer et de clarifier les relations en matière de reddition des comptes.

- 12.7 Lorsque Anciens Combattants Canada a entrepris d'instaurer des changements conçus pour améliorer l'efficacité de la mise en oeuvre du Programme pour l'autonomie des anciens combattants, il ne s'est pas entièrement conformé aux modalités établies par le Conseil du Trésor concernant la poursuite du système de vérification des paiements *a posteriori*. Nous avons relevé des lacunes au chapitre du processus d'évaluation des besoins de soins de santé, également prescrit par le Conseil du Trésor. Le Ministère ne dispose pas de données empiriques appropriées pour vérifier dans quelle mesure le Programme a eu des répercussions sur la santé des bénéficiaires ou s'il les a aidés à vivre de façon autonome chez eux et au sein de leur collectivité.
- 12.8 Le Ministère a réalisé des économies en instaurant un système de contrôle des services non pharmaceutiques offerts à ses clients. Il a également reconnu la nécessité d'améliorer les méthodes de contrôle des avantages de médicaments qu'il mettra en application en 1997. Le Ministère prévoit réaliser des économies de sept millions de dollars par année et améliorer la qualité des soins offerts en mettant en application des contrôles améliorés. En outre, sa méthode de contrôle des médicaments en vente libre est coûteuse.



Chapitre 12 – Points saillants

- 12.1 Le Canada remplit notamment ses obligations envers ses anciens combattants par voie des programmes offerts par Anciens Combattants Canada. Les principaux programmes financés du Ministère ont trait aux pensions, au soutien du revenu et aux soins de santé. Au cours des dix dernières années, le programme des soins de santé est celui qui a connu la croissance la plus rapide. Les coûts ont en effet augmenté de 149 p. 100 en raison de questions de compétence avec les provinces, de l'élargissement des critères d'admissibilité aux programmes, de la bonification des avantages et de l'inflation, surtout à la fin des années 80.
- 12.2 Le Ministère n'a pas encore mis au point un plan global visant à répondre aux besoins futurs de ses clients en matière de soins de santé, pour les raisons suivantes :
- Il a très peu de données qui lui permettent de prévoir l'importance de sa clientèle à venir au chapitre des soins de santé. En outre, de nombreux anciens combattants et membres des forces armées sont susceptibles de devenir des clients et d'être admissibles aux prestations de soins de santé offertes par Anciens Combattants Canada.
 - Le Ministère n'a pas établi de prévisions en ce qui concerne les changements dans les besoins futurs de sa population de clients en matière de soins de santé et les répercussions de ces changements sur les programmes du Ministère.
- 12.3 Anciens Combattants Canada s'est engagé à réduire d'ici deux ans, de 18 à 9 mois, les délais de traitement des demandes de pension présentées en première instance. Nous entendons vérifier à l'avenir si le Ministère parviendra à respecter cet objectif.
- 12.4 Il y a un problème qui perdure entre Anciens Combattants Canada et certaines provinces au sujet de la responsabilité de certaines prestations de soins de santé versées aux anciens combattants admissibles en raison de leur revenu. Le Ministère a établi qu'il verse environ 50 millions de dollars par année pour ces prestations de soins de santé.
- 12.5 À notre avis, le Ministère dispose de méthodes de contrôle satisfaisantes pour déterminer l'admissibilité aux prestations de soins de santé.
- 12.6 Il n'existe aucune directive nationale concernant la qualité des soins de longue durée en établissement. Les méthodes de contrôle du coût des soins dispensés dans les établissements contractants sont déficientes. Les ententes de fonctionnement comportent des lacunes, les budgets sont souvent présentés après le commencement de l'exercice financier et les processus d'examen du fonctionnement accusent souvent des retards.

Revenu Canada

La lutte contre l'évitement de l'impôt sur le revenu

Vérificateur général adjoint : Shahid Minto
Vérificateur responsable : Barry Elkin



Chapitre 11 – Points saillants

11.1 Le coût de l'évitement de l'impôt sur le revenu n'est pas connu. Toutefois, les résultats du programme de Revenu Canada pour lutter contre l'évitement fiscal indiquent que celui-ci continue de menacer sérieusement l'assiette fiscale. Le Ministère s'attend à ce que le programme entraîne, en 1995-1996, l'établissement de 365 millions de dollars de nouvelles cotisations.

11.2 Le Ministère a entrepris des initiatives précises pour combattre les procédés d'évitement fiscal et dissuader les contribuables d'y recourir. Les activités de lutte contre l'évitement fiscal, dans les bureaux de district où nous nous sommes rendus, ont entraîné de nouvelles cotisations d'impôt importantes.

11.3 La prévention de l'évitement fiscal peut être source de recettes fiscales importantes. De plus, elle est essentielle si l'on veut maintenir l'intégrité du régime d'autocotisation. Dans notre rapport, nous indiquons des secteurs où il existe des possibilités de simplifier les activités et de renforcer l'obligation de rendre compte.

Chapitre 10 – Points saillants (suite)

10.5 Le Service correctionnel axe ses activités sur la réintégration sociale et il a réussi à élaborer un large éventail de programmes d'intervention. Toutefois, il y a un manque de vigilance de la part des gestionnaires supérieurs pour ce qui est de déterminer la meilleure façon d'affecter les ressources en fonction de leur objectif global de réintégration en toute sécurité. Pour atteindre cet équilibre, le Service aura besoin de renseignements plus complets sur le coût et les avantages de ces programmes de réadaptation. Sans ces renseignements, il n'est pas en mesure de réévaluer et de réaffecter de façon stratégique son investissement dans les programmes de réadaptation.



Chapitre 10 – Points saillants

10.1 Le mandat du Service correctionnel consiste en partie à réadapter les délinquants qui sont sous sa garde. Comme la plupart des 14 000 délinquants actuellement incarcérés dans les pénitenciers fédéraux finiront par être libérés un jour, plusieurs soutiennent que ce rôle représente la partie la plus importante de son mandat. Cela est particulièrement significatif lorsqu'on considère que, par le passé, 28 p. 100 des délinquants ont commis de nouvelles infractions après leur mise en liberté.

10.2 Le Service correctionnel consacre environ sept pour cent de son budget annuel d'un milliard de dollars à des programmes axés sur les facteurs qui contribuent au comportement criminel. Les programmes habituels comme l'éducation, la formation professionnelle et les ateliers industriels sont axés sur l'employabilité. Depuis 1988, les programmes d'intervention sont au centre des tentatives de réadaptation du Service correctionnel. Ils portent sur des facteurs comme la déviance sexuelle, la toxicomanie et le comportement antisocial. Le Service correctionnel a conçu une série impressionnante de programmes dont quelques-uns sont reconnus à l'échelle internationale.

10.3 Nous avons constaté des lacunes dans la gestion des 34 millions de dollars consacrés aux programmes d'intervention. Le Service consacre à deux contrats un nombre disproportionné de ressources d'intervention sans avoir l'assurance que les traitements seront fournis aux délinquants qui en ont besoin ou sans disposer d'une analyse qui indique que les résultats obtenus justifient leur coût. Ainsi, 17 p. 100 des sommes consacrées aux programmes pour les délinquants sexuels servent à traiter 20 délinquants alors que les 83 p. 100 qui restent sont dépensées pour 1 800 délinquants. En ce qui concerne les programmes de traitement de la toxicomanie, 16 p. 100 des sommes dépensées servent à traiter 100 délinquants alors que les 84 p. 100 qui restent sont dépensées pour 5 000 délinquants. Une autre lacune est que le Service n'a pas encore pleinement établi un ensemble de programmes pour bien aider les délinquants lors de leur passage de l'établissement à la collectivité. À l'heure actuelle, le Service ne peut répondre qu'à 65 p. 100 de la demande de participation à un programme de prévention des rechutes des délinquants sexuels libérés.

10.4 Il y a aussi des lacunes dans la gestion des programmes traditionnels. CORCAN (un atelier industriel en milieu carcéral) est le programme de réadaptation le plus coûteux du Service; il a englouti plus de 100 millions de dollars au cours des quatre dernières années. Les emplois au sein de CORCAN ont coûté 13 000 \$ par poste annuel à temps plein, en 1994-1995, tandis que le coût du programme éducatif et de la formation professionnelle s'est élevé à environ 7 500 \$ par étudiant à temps plein. En outre, la moitié des délinquants affectés à CORCAN n'avaient pas nécessairement besoin des compétences qui leur étaient offertes. Autre fait préoccupant, plus de 95 p. 100 des ressources consacrées aux programmes d'employabilité du Service sont axées sur les établissements, de sorte qu'il en reste très peu pour aider les délinquants à trouver du travail, une fois qu'ils ont réintégré la collectivité. Le Service n'a pas de stratégie cohérente pour se pencher sur la question de l'employabilité des délinquants. Il ne peut en arriver à une solution équilibrée sur la répartition des ressources.



Chapitre 9 – Points saillants

9.1 Le fait que le Canada soit relativement exempt de maladies animales et de parasites des végétaux et que de 17 milliards de dollars en produits agricoles et forestiers. La reconnaissance du bon état sanitaire de ses ressources végétales et animales à l'échelle internationale est essentielle pour maintenir l'accès aux marchés d'exportation.

9.2 Avec l'évolution de l'économie agricole mondiale, le Ministère se voit de plus en plus contraint d'accepter de nouvelles importations, ce qui accroît le risque pour le Canada. Pour pallier cette situation, le Ministère évalue le risque que comportent les importations et il réagit rapidement contre les dangers qu'il a décelés. Dans un même temps, il a accompli des efforts considérables pour moderniser son approche commerciale de la protection de la santé tout en s'ajustant aux importantes compressions de ses ressources.

9.3 Le Ministère a élaboré un processus d'évaluation des risques, pour lequel il a par la suite été reconnu à l'échelle internationale comme un chef de file dans ce domaine. Ce processus lui fournit une base scientifique pour l'aider à prendre des décisions en matière de gestion des risques. Il n'a pas encore évalué, en se servant de cet outil analytique, les menaces qui pèsent sur les ressources végétales et animales canadiennes, non plus que la situation des maladies, des mauvaises herbes et des substances toxiques visées par la réglementation, et il ne pourra le faire dans un avenir rapproché que s'il cesse de mettre l'accent sur les activités liées aux importations. Il s'ensuit que le Ministère ne dispose pas d'une information suffisamment fiable pour classer les dangers selon leur gravité, établir les priorités pour l'ensemble du Programme ou démontrer qu'il a utilisé de façon optimale les ressources disponibles.

9.4 Les objectifs du Programme ont été exprimés en termes mesurables. Toutefois, les cadres ont établi peu d'indicateurs de rendement ou d'information succincte qui puissent permettre aux parlementaires de comprendre et d'évaluer le rendement prévu et réel ainsi que les moyens qu'a pris le Ministère pour faire face aux flambées de maladies et aux infestations graves.

9.5 La mise en oeuvre du Programme de protection des végétaux et de santé des animaux mobilise une équipe d'au-delà de 1 100 employés (gestionnaires, inspecteurs et employés de laboratoire) et coûte plus de 100 millions de dollars par année. Le Ministère a appliqué des mesures visant à réduire ou à éviter certains coûts, mais il n'en reste pas moins qu'il continue à administrer le Programme et à planifier ses activités futures sans tenir compte de ce que lui permet le niveau actuel de ressources.

9.6 Le régime de recouvrement des coûts a été instauré pour certains services qui étaient dans le passé fournis sans frais, et il s'étendra à d'autres afin de compenser la forte réduction des fonds attribués au Programme. Si l'on tient compte des difficultés que comportent le maintien de la compétitivité de l'industrie et l'accès aux marchés internationaux, l'identification des bénéficiaires ainsi que la mise au point d'une formule souple et transparente de recouvrement des coûts, le Ministère a fait des progrès à court terme. Notre inquiétude majeure, toutefois, est que, présentement, il récupère moins que 60 p. 100 des coûts totaux de prestation du service, service dont l'industrie est la principale bénéficiaire.

Service canadien du renseignement de sécurité La construction de l'immeuble abritant l'administration centrale

Vérificateur général adjoint : David Rattray
Vérificateur responsable : Reno Cyr



Chapitre 8 – Points saillants

- 8.1** Le Service canadien du renseignement de sécurité (SCRS) avait besoin, depuis sa création en 1984, d'une administration centrale (AC) dont les locaux seraient séparés de ceux de l'ancien Service de sécurité de la Gendarmerie royale du Canada, son prédécesseur.
- 8.2** La fin de la construction du nouvel immeuble de l'administration centrale, en 1995, a permis au SCRS de regrouper, en un seul lieu, les activités que l'administration centrale et le bureau régional d'Ottawa menaient dans dix locaux différents.
- 8.3** À notre avis, le projet a été bien géré dans l'ensemble. Il a été terminé dans les délais prévus et a respecté le budget. De plus, l'immeuble répond aux besoins fonctionnels des occupants.
- 8.4** Les facteurs qui ont contribué à la réussite du projet et les leçons tirées de l'expérience pourraient se révéler utiles pour d'autres projets de construction similaires. Un des facteurs de réussite a été le rôle prépondérant qu'a joué le SCRS, l'occupant de l'immeuble.
- 8.5** Nous croyons que l'équipe chargée du projet a réussi à faire en sorte que le nouvel immeuble procure un milieu de travail protégé aux employés du SCRS et à leurs activités.
- 8.6** Parce que la superficie brute construite dépasse de 13 000 mètres carrés les prévisions initiales sans qu'il y ait dépassement du budget approuvé, nous nous interrogeons sur la façon dont sont calculés les budgets consacrés aux projets et sur l'efficacité du contrôle que le Conseil du Trésor exerce sur ses autorisations de projets.
- 8.7** La reprise du plan du sixième étage, malgré les doutes exprimés par l'équipe chargée du projet et à un coût supplémentaire d'environ 1,4 million de dollars, n'a pas, à notre avis, amélioré de façon notable le caractère fonctionnel de l'immeuble.
- 8.8** Nous avons également noté que des montants ont été payés sur des contrats avant le début des travaux, ce qui contrevient aux dispositions de la *Loi sur la gestion des finances publiques*, et que les documents contractuels pour l'architecture étaient mal formulés, ce qui a atténué la responsabilité de ce dernier et entraîné une augmentation des coûts.
- 8.9** Nous avons enfin noté que, même si les autorisations et les budgets ont été respectés, il aurait été possible, dans certains cas, de réaliser davantage d'économies.



Vérificateur général adjoint : David Ratray
Vérificateur responsable : Peter Kasurak

Chapitre 7 – Points saillants

7.1 Les Forces canadiennes ont une fiche enviable dans le secteur du maintien de la paix et leurs missions ont été marquées d'actes de bravoure et de dévouement.

7.2 Le ministère de la Défense nationale planifie les missions de maintien de la paix dans un contexte fluide, souvent dans des délais très serrés. Ses activités de planification ont présenté des faiblesses en ce qui concerne le déploiement et la relève du personnel des missions. Le Ministère a toutefois amélioré ses modalités d'évaluation en ce qui a trait à la probabilité de réussite d'une mission dans son ensemble, à la capacité des Forces canadiennes de respecter les exigences d'une mission et à l'incidence d'un déploiement sur d'autres engagements.

7.3 La Force terrestre a conservé dans ses effectifs de campagne des soldats qui autrement auraient été écartés dans le cadre de la réduction du personnel militaire. Cela équivalait à 1 600 des 3 000 soldats supplémentaires que le gouvernement a affectés au maintien de la paix. Les autres augmentations ont été minimes à ce jour. Dans l'ensemble, même dans les catégories des membres du personnel les plus fortement utilisés, les militaires n'ont pas été surchargés de fonctions de maintien de la paix. De nombreuses restrictions d'ordre pratique se posent encore à l'utilisation de réservistes en mission de paix.

7.4 Le service du maintien de la paix des dernières années a fait ressortir de graves problèmes pour ce qui est de l'aptitude de la Force terrestre à constituer des forces polyvalentes :

- La Force terrestre ne met pas totalement à exécution ses plans d'instruction collective. Son exercice d'instruction le plus exhaustif a été remplacé par un exercice beaucoup plus restreint en raison de ses tâches liées au maintien de la paix. De nombreux exercices de moindre envergure prévus au cours des dernières années n'ont pas eu lieu.

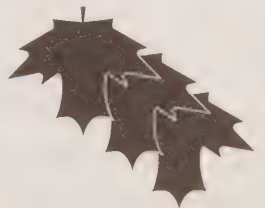
- Il a fallu faire des achats de dernière minute importants pour fournir un niveau minimum d'équipement aux troupes déployées en mission de paix. En 1995, le ministère de la Défense nationale a conclu que les lacunes bien connues de ses véhicules blindés empêchaient de limiter à un niveau acceptable de risque les missions confiées aux troupes.

- Les plans de soutien médical du Ministère indiquent que l'hôpital de campagne projeté ne pourra fournir le soutien requis par les plans opérationnels de la Force terrestre.

7.5 Le Ministère a expédié des approvisionnementnements et de l'équipement d'une valeur de 822 millions de dollars à l'appui des missions de maintien de la paix que nous avons étudiées. Par des rajustements, il a réduit de 67 millions de dollars la valeur des soldes des stocks. Il a également comptabilisé des pertes de 13 millions de dollars. Toutefois, au moment où nous avons effectué notre vérification, le Ministère a été incapable de trouver bon nombre des documents justificatifs requis. Les rajustements susmentionnés, ainsi que les pertes comptabilisées, restent donc en grande partie inexplicables.

Chapitre 6 – Points saillants (suite)

- 6.6** Le Ministre ne possède pas de méthode établie pour effectuer des évaluations ou déterminer les « leçons tirées » d'une opération de maintien de la paix dans une optique de politique étrangère. Cette lacune augmente le risque de ne pas profiter pleinement de l'expérience acquise lors de participations antérieures.
- 6.7** Au cours des cinq dernières années, le Canada a recouvert 236 millions de dollars de l'ONU. Des remboursements totalisant 92 millions de dollars lui étaient dus au 31 mars 1996. Le montant et la rapidité des remboursements tiennent en grande partie à la situation de trésorerie de l'ONU, à la priorité accordée par le Canada à la fonction de recouvrement, aux factures et aux pièces justificatives et à l'acceptation par l'ONU des sommes facturées.
- 6.8** Une transparence et une responsabilité accrues permettraient d'éclairer davantage les décisions concernant les opérations de maintien de la paix. Il faudrait en outre raffermir l'administration des remboursements réclamés à l'ONU.



Chapitre 6 – Points saillants

6.1 Pour le ministère des Affaires étrangères et du Commerce international (MAECI), le maintien de la paix est un élément central de l'objectif de la politique étrangère du Canada, qui consiste à assurer la sécurité du pays à l'intérieur d'un cadre mondial stable. Au fil des ans, le Canada a participé à la plupart des missions de maintien de la paix.

6.2 La nature des opérations de maintien de la paix des Nations Unies a subi une transformation radicale depuis la fin de la guerre froide. Auparavant, le rôle principal de l'Organisation des Nations Unies (ONU) consistait surtout à contrôler les accords d'armistice entre États. De nos jours, on fait de plus en plus appel à l'ONU pour exécuter des missions d'une plus grande complexité, qui comportent un volet d'imposition de la paix aussi bien entre États que dans ceux-ci. En outre, un rôle de coordination et de coopération entre les autorités civiles et militaires s'est fait jour.

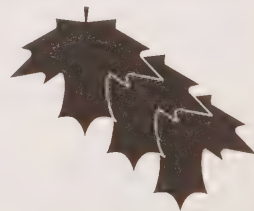
6.3 Les Nations Unies demeurent pour le Canada le principal instrument pour ses objectifs de sécurité mondiale; cependant, d'importantes contraintes limitent la capacité de l'Organisation d'exécuter efficacement sa fonction de maintien de la paix.

- La direction de l'ONU signale que, jusqu'ici, les États membres n'ont pas été prêts collectivement à doter l'Organisation des moyens dont elle a besoin pour effectuer les tâches additionnelles qui lui sont confiées, comme l'ont démontré les opérations en Somalie, au Rwanda, en Bosnie et en Haïti.
- Le Ministère signale que, lorsque leur mandat est imprécis et que leurs ressources sont insuffisantes, les missions ont peu de chance de réussir, en dépit d'améliorations apportées aux méthodes de gestion au siège de l'ONU.
- À l'encontre du Canada, un certain nombre de membres n'acquiescent pas leurs cotisations dans les délais prévus. Les fonds destinés au maintien de la paix servent donc de plus en plus à payer les coûts du budget régulier, qui accuse lui aussi de sérieux arriérés de cotisations.

6.4 Le Canada, qui accorde la plus grande importance à la réforme de l'ONU, a collaboré à plusieurs propositions visant à améliorer l'efficacité des opérations de maintien de la paix. Toutefois, pour pouvoir opérer des réformes importantes, l'ONU doit avoir l'assentiment des 185 membres de l'Assemblée générale. Un tel consensus est difficile à obtenir lorsqu'il s'agit de changements.

6.5 Le coût global, tant financier que non financier, des opérations canadiennes de maintien de la paix ne figure dans aucun document public. Le coût financier a monté en flèche ces dernières années par suite de l'augmentation du nombre et de la taille des missions, passant d'environ 47 millions de dollars en 1991–1992 à quelque 240 millions de dollars en 1995–1996, soit une augmentation de 410 p. 100. Le coût de la participation aux opérations de maintien de la paix de l'OTAN en Bosnie et la décision qu'a prise récemment le Canada d'envoyer des troupes en Haïti ajouteront à cette augmentation.

La réforme de la classification et de l'évaluation des postes dans la fonction publique

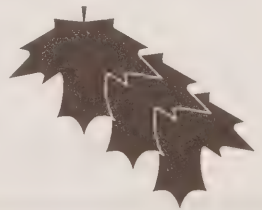


Vérificatrice générale adjointe : Maria Barrados
Vérificateur responsable : Jacques Goyer

Chapitre 5 – Points saillants

- 5.1** La réforme de la classification et de l'évaluation des postes constituait l'un des principaux changements systémiques liés au renouvellement de la fonction publique. En raison de leurs liens importants avec d'autres systèmes, tels que les relations de travail et l'administration de la paye, la classification et l'évaluation des postes sont considérées comme la pierre angulaire de la gestion des ressources humaines dans la fonction publique.
- 5.2** Pour donner suite à des recommandations de changements, le Secréariat du Conseil du Trésor s'est chargé d'élaborer un seul plan d'évaluation des postes pour remplacer les quelque 70 plans actuellement en usage et réduire considérablement le nombre de groupes et de sous-groupes professionnels servant à classer les postes. Compte tenu du contexte difficile, c'était là un défi de taille.
- 5.3** À la suite de notre vérification de la version de la Norme générale de classification de juin 1995, nous avons conclu qu'après environ six ans, le défi présenté par la réforme n'avait été que partiellement relevé :
- Le nouveau plan d'évaluation des postes élaboré par le Secréariat constitue une véritable amélioration et comporte maints aspects prometteurs. Il reste cependant de nombreuses questions importantes à régler pour que ce plan soit un instrument valide et fiable qui permette l'évaluation de tous les postes dans la fonction publique tout en respectant les exigences de parité salariale qui découlent de la *Loi canadienne sur les droits de la personne*.
 - Il est possible de simplifier davantage et de réduire les coûts de la classification et de l'évaluation des postes et de certains des systèmes et pratiques connexes, tels que l'administration de la paye.
- 5.4** Même si le Secréariat du Conseil du Trésor a entrepris la réforme en se fixant comme objectif la « neutralité des coûts », nous avons constaté que les coûts et les avantages de la réforme n'étaient pas connus avec précision.
- 5.5** À la fin de la vérification, le Secréariat prenait un certain nombre de mesures importantes pour régler les problèmes décelés dans le cadre de la vérification. La Norme est prometteuse et il est possible de la corriger. Le succès de la réforme dépendra toutefois de la volonté et de la capacité des parties intéressées de travailler ensemble à l'atteinte des objectifs de la réforme et ce, à un coût raisonnable pour le contribuable.

La vérification interne dans les ministères et les organismes



Vérificateur général adjoint : David H. Roth
Vérificateur responsable : Bruce C. Sloan

Chapitre 4 – Points saillants

- 4.1** Le gouvernement vit une période de changement considérable : il rationalise et restructure les ministères en vue de réduire les coûts de l'administration tout en maintenant ou en améliorant la mise en oeuvre des programmes publics pour les Canadiens et les Canadiennes. Même si ces changements peuvent influencer la nature et le lieu des contrôles organisationnels, ils ne réduisent pas la nécessité pour l'organisation d'exercer un contrôle. Dans ce contexte, une vérification interne efficace est plus importante que jamais pour garantir la gestion avisée des programmes et activités ministériels.
- 4.2** Un service de vérification interne efficace est un outil de gestion fondamental. Il peut fournir aux sous-ministres des assurances quant à l'efficacité des activités financières, administratives et opérationnelles clés et des pratiques de gestion des ministères, ainsi que des propositions en vue de leur amélioration.
- 4.3** L'appui de la haute direction est essentiel pour que la vérification interne contribue efficacement à l'organisation. Dans une large mesure, le respect dont jouit la vérification interne auprès des gestionnaires des opérations est tributaire de la relation qui existe entre celle-ci et la haute direction. Nous avons constaté que même si la haute direction appuie généralement la fonction de vérification interne, sa vision du rôle de celle-ci est plus restreinte que celle des cadres supérieurs du secteur privé.
- 4.4** Le Secrétaire du Conseil du Trésor mène un certain nombre d'activités qui, à son avis, sont conçues pour favoriser la mise en oeuvre et surveiller l'efficacité de la politique de vérification interne dans le cadre de la politique d'examen. Nous pensons que ces efforts n'ont pas été suffisants pour permettre une évaluation de l'efficacité de la mise en oeuvre de la politique de vérification interne.
- 4.5** Si le rendement de quelques services de vérification interne s'est amélioré depuis 1993, nous avons constaté que, dans l'ensemble, il n'y avait guère eu d'amélioration depuis notre vérification de 1993. Sur les sept services de vérification interne ministériels que nous avons examinés en détail, quatre ne se conforment toujours pas aux normes établies pour la pratique de la vérification interne.
- 4.6** Nous avons constaté que la couverture des systèmes en développement par la vérification interne s'est améliorée. Cependant, d'autres améliorations doivent être apportées dans d'autres domaines pour que la vérification interne donne tout son potentiel.
- 4.7** Pour ce faire, la vérification interne doit mieux équilibrer l'étendue de ses travaux, notamment les questions de conformité et de contrôle et l'évaluation de l'efficacité et de l'efficacité des opérations ministérielles.
- 4.8** Dans le cadre de notre vérification, nous avons évalué la mesure dans laquelle les ministères utilisaient des méthodes et des techniques adéquates pour mesurer l'efficacité de leurs services de vérification interne — c'est-à-dire, leur apport à l'amélioration du fonctionnement du ministère. En 1993, nous avions constaté que pratiquement aucun service de vérification interne ne mesurait son rendement. Cependant, environ la moitié des services de vérification interne le font maintenant d'une manière ou d'une autre.



Vérificatrice générale adjointe : Maria Barrados
Vérificateur responsable : Stan Divorski

Chapitre 3 – Points saillants

3.1 Le gouvernement a reconnu qu'il fallait une meilleure information sur les résultats des programmes pour appuyer ses décisions et améliorer sa façon de fonctionner. Pour obtenir de l'information sur les résultats finaux des programmes gouvernementaux, il faut mesurer et analyser méthodiquement l'efficacité des programmes. Le besoin de faire des études d'efficacité des programmes — communément appelées évaluations — croît en raison de l'examen minutieux auquel les programmes gouvernementaux sont soumis.

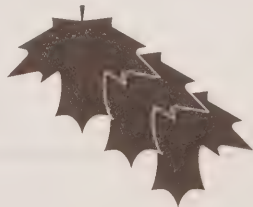
3.2 La modification du milieu a rendu la planification et la réalisation d'évaluations plus difficiles. Une nouvelle politique d'examen du Conseil du Trésor reconnaît la responsabilité des gestionnaires de programmes dans le domaine de la mesure du rendement des programmes. On y reconnaît également que la mesure et l'analyse de l'efficacité peuvent venir d'une foule d'études, mais on n'y précise pas les normes qui s'appliquent lorsque la mesure et l'analyse sont effectuées dans le cadre d'examen autres que des évaluations.

3.3 Les questions qu'un ministre choisit d'évaluer sont le reflet de décisions fondées en grande partie sur ses intérêts et ses priorités. Les évaluations continuent de faire ressortir les besoins des gestionnaires du ministère — car elles portent principalement sur des petites composantes de programmes et sur des questions opérationnelles. De telles études peuvent fournir des appuis précieux à la direction. Un bon gouvernement exige également de l'information globale sur l'efficacité des programmes pour la prise de décisions et une meilleure reddition de comptes. Cette information n'est pas toujours disponible. Les ministères ont prouvé qu'ils peuvent répondre aux demandes d'information sur les résultats des programmes clés. Nous avons constaté, par exemple, qu'ils ont fait des progrès quant à l'évaluation de l'efficacité des programmes dont les dépenses sont supérieures à un milliard de dollars par année.

3.4 Les ministères, excepté certains des plus petits, ont maintenu leurs niveaux d'appui financier à l'évaluation; cependant, certains aspects importants de la gestion de l'évaluation dans les ministères ne se sont pas améliorés. L'étendue et la qualité des évaluations demeurent des sujets de préoccupation.

3.5 Le gouvernement a instauré des mesures susceptibles d'améliorer la planification de l'évaluation et d'appuyer la progression constante de l'évaluation de ses programmes clés. Le système renouvelé de gestion des dépenses exige que les ministères soumettent des plans d'activités assortis de priorités en matière d'examen des programmes, y compris en matière d'évaluation et de vérification interne. Cette approche offre la possibilité d'établir un lien entre les plans d'évaluation ministériels et le processus budgétaire. Au cours de la première année, environ les deux tiers des plans ont fait état de priorités en matière d'examen. Toutefois, on en est aux premières étapes de l'élaboration du système. Le gouvernement doit encore veiller à ce que les priorités individuelles des ministères en matière d'évaluation reflètent ses priorités dans ce domaine. Pour ce faire, il doit énoncer systématiquement ses priorités en matière d'évaluation, déceler les lacunes au niveau de l'activité d'examen et veiller à ce qu'elles soient comblées.

3.6 Le président du Conseil du Trésor a soumis au Parlement un rapport sur le rendement de l'examen au gouvernement qui constitue une première étape encourageante. Dans les prochains rapports, il faudra trouver des mesures plus concrètes et une présentation plus fidèle des succès du gouvernement dans le domaine de la mesure et de l'analyse de l'efficacité des programmes.



Chapitre 2 – Points saillants

- 2.1** Depuis qu'elle a été annoncée dans le *Plan vert* (1990), la gérance environnementale est pratiquée par les ministères et les organismes fédéraux. En 1992, le *Code de gérance de l'environnement* pour le gouvernement du Canada fournissait une orientation pour « l'écologisation » des opérations gouvernementales, qui comprend la préparation de plans d'action environnementaux. La plupart des organismes continueront de fonctionner selon le Code, mais les ministères sont tenus, depuis décembre 1995, de préparer des stratégies de développement durable et des plans de mise en oeuvre, conformément aux modifications apportées à la *Loi sur le vérificateur général*.
- 2.2** Un cadre stratégique de gérance environnementale, élaboré en 1991, assignait des responsabilités dans ce domaine aux ministères et aux organismes. Cependant, le programme n'a pas été mis en oeuvre comme il avait été prévu. En effet, les ministères et les organismes n'ont généralement pas préparé ou mis à jour de plans d'action ni soumis de rapports d'étape.
- 2.3** Comme le processus d'écologisation est maintenant dans une période de transition, c'est le moment d'examiner les progrès faits à ce jour et d'effectuer tous les changements qui sont nécessaires afin qu'il puisse se poursuivre. À notre avis, des progrès considérables ont été faits depuis 1992, mais il faut encore tirer des leçons de nos expériences passées.
- 2.4** Il faut un leadership pour assurer la durabilité du processus d'écologisation, tant dans l'ensemble du gouvernement que dans les ministères et les organismes. La responsabilité de la mise en oeuvre du processus doit être précisée.
- 2.5** La gestion de l'information doit être améliorée pour que le processus se déroule comme prévu. Environnement Canada, en qualité de facilitateur, a élaboré certains outils, notamment des projets pilotes, des ateliers et des documents d'orientation, mais ceux-ci ne sont pas toujours parvenus aux clients ou n'ont pas toujours été adaptés à leurs besoins. En outre, on n'a pas saisi l'occasion de constituer, pour l'ensemble du gouvernement, une banque de données servant de source d'information à tous les participants et à la préparation de rapports cumulatifs.
- 2.6** Les rapports cumulatifs fournissent aux décideurs l'information dont ils ont besoin pour s'assurer que le processus d'écologisation est bien orienté, se déroule selon le calendrier prévu et permet la réalisation de l'objectif de développement durable. En réalité, l'information communiquée a jusqu'ici été sélective, et aucun rapport cumulatif véritable n'a été produit; il ne semble pas non plus qu'il y ait de plans prévoyant de tels rapports cumulatifs à l'avenir.



Chapitre 1 – Points saillants

1.1 La Loi sur le vérificateur général exige du vérificateur général qu'il inclue dans ses rapports les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

1.2 Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans le rapport. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous portons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes du Canada, des états financiers des sociétés d'État et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

1.3 Le chapitre renferme habituellement des observations qui se rapportent aux dépenses et aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers sans souci suffisant de l'économie.

1.4 Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.

1.5 Les observations que nous faisons portent sur ce qui suit :

- le manque d'énoncé clair des résultats escomptés d'une initiative d'adaptation communautaire de 7,5 millions de dollars;
- de sérieux motifs d'inquiétude quant à la façon dont la Loi de l'impôt sur le revenu a été appliquée au transfert à l'étranger d'au moins deux milliards de dollars d'actifs détenus dans des fiduciaires familiales au Canada.

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(traduction) « les sociétés ont les fonctions publiques qu'elles méritent. Si les gens croient que le gouvernement est

léthargique et bureaucratique, c'est ce

qu'il sera. Si au contraire, ils

reconnaissent la valeur du service public,

ils se retrouveront avec un gouvernement

solide. Et aucune nation aujourd'hui ne

peut se permettre autre chose qu'un

gouvernement solide ».

174. Je ne pourrais ne pas être

d'accord. Selon tous les critères, nous

faisons partie des nations les mieux dotées

et les plus avantagées. Les tentatives pour

le mesurer avec des indices et des échelles

ne font que confirmer ce que nous savons déjà dans nos coeurs.

175. Et je pense, également, que nous

savons dans nos coeurs qu'une grande

partie de notre réussite collective provient

de nos institutions nationales, qui sont

fondamentalement solides, et d'un bon

gouvernement. Somme toute, les

nombreux défis que nous avons à relever

se résument ainsi : réagir rapidement et

sagement au changement de manière à

assurer la solidité de nos institutions

nationales et la qualité du gouvernement.

C'est là une grande responsabilité. Nos

petits-enfants jouiront-ils demain d'une

nation aussi bien dotée et avantagée : c'est

pour cela qu'il faut réussir.

164. Cependant, la question la plus importante de toutes est sans doute la nécessité de progrès réels au chapitre de la reddition de comptes et de l'information communiquée au Parlement et aux contribuables canadiens.

165. De nombreuses autres questions importantes sont exposées dans mes rapports de mai et de septembre, et ailleurs dans celui-ci. Ensemble, elles constituent une liste assez impressionnante de questions, de problèmes et de défis auxquels fait face le gouvernement fédéral. Et pourtant, elles ne constituent qu'une image partielle des mesures nécessaires, puisque nos travaux de vérification ne touchent qu'une fraction des activités de l'administration fédérale au cours d'une année donnée.

166. Ces questions défont souvent les solutions simples. Dans le passé, j'ai dit à propos d'un grand nombre d'entre elles qu'elles semblaient épineuses. Il n'est pas impossible de les régler, mais difficile de le faire.

D'amples raisons d'être optimiste

167. Cela semblerait me donner d'amples raisons d'être pessimiste, mais je demeure optimiste au sujet de la capacité du gouvernement de relever ces défis.

168. Mon optimisme vient tout d'abord du fait que la plupart des questions et des défis ont été reconnus par les représentants du gouvernement. Notamment, il existe beaucoup de similitudes entre les défis discutés dans les rapports annuels sur la fonction publique du Canada par le greffier du Conseil privé et ceux qui sont exposés par notre Bureau.

169. Je sens une nouvelle ouverture au changement, plus qu'au cours de mes premières années en qualité de vérificateur général. Manifestement, le

moral dans la fonction publique a souffert de l'incertitude et des compressions. Mais quand je rencontre les hauts fonctionnaires des organisations gouvernementales, je vois des gens qui, pour la plupart, sont excités par les possibilités que le changement offre et qui en tirent parti. Il incombe aux hauts fonctionnaires d'infuser cet esprit positif à leur personnel.

170. On reconnaît plus largement qu'il est impossible de faire fonctionner l'administration fédérale uniquement au moyen de règles, de structures et de processus. On manifeste, à juste titre, un peu plus d'intérêt pour les éléments moins concrets de la gestion — la nécessité d'insuffler un leadership inspiré, de motiver et de renforcer les valeurs.

Ces défis nous concernent tous

171. Si les autres n'agissent pas, il est peu probable que les fonctionnaires, de leur propre initiative, puissent relever les nombreux défis auxquels le gouvernement fait face.

172. Les parlementaires et les ministres ont un rôle à jouer en inscrivant dans leur programme politique la gestion de l'administration fédérale. Des exemples de ce qui se passe ailleurs sont révélateurs : dans d'autres administrations, les améliorations les plus impressionnantes dans la gestion et la reddition de comptes ont été insufflées par les dirigeants politiques.

173. Le défi pour tous les Canadiens est celui de critiquer le gouvernement, mais tout en étant équitables. Nos critiques peuvent être saines et constructives, mais si elles dépassent les limites, elles peuvent s'autoalimenter dangereusement. Comme Henry Minitzberg, l'un des penseurs les plus respectés au Canada dans le domaine de la gestion, a fait remarquer récemment,

Il est impossible de faire fonctionner l'administration fédérale uniquement au moyen de règles, structures et processus.

Les parlementaires et les ministres ont un rôle à jouer en inscrivant dans leur programme politique la gestion de l'administration fédérale.

comptes et j'y contribuerai chaque fois que cela sera possible.

Partie III : Questions qui touchent notre Bureau

Le commissaire à l'environnement et au développement durable : un rapport d'étape

158. Au cours de la dernière décennie, notre Bureau s'est intéressé de plus en plus

à l'application des principes de vérification

et a fait oeuvre de pionnier dans

l'application des principes de vérification à l'environnement. Notre examen des lieux contaminés fédéraux, présenté dans le chapitre 22 du présent rapport, en est un exemple.

159. Les modifications apportées en

décembre 1995 à la *Loi sur le vérificateur général* ont changé sensiblement la façon dont les ministères et notre Bureau considèrent l'environnement.

160. Chaque ministre est tenu de préparer une stratégie de développement durable et un plan d'action qui décriront explicitement les compromis qu'il a dû faire entre les objectifs de sa politique. Chaque ministre précisera également comment il exécutera ses activités de manière à minimiser leurs répercussions sur l'environnement.

161. Les modifications m'obligent à déterminer si les ministères ont dépensé les fonds votés par le Parlement en tenant dûment compte de leurs répercussions sur l'environnement et sur le développement durable. Cela codifie le type de travaux que nous avons réalisés au cours de la dernière décennie dans ce domaine. Les modifications créent également le poste de commissaire à l'environnement et au développement durable; celui-ci

surveillera les stratégies de développement durable et les plans d'action des ministères, ainsi que la réponse donnée par les ministres aux pétitions des Canadiens sur les questions environnementales; il préparera aussi chaque année un rapport « vert » à l'intention du Parlement au sujet du rendement du gouvernement en matière d'environnement et de développement durable.

162. Le premier commissaire à l'environnement et au développement durable, M. Brian Emmett, est entré en fonction le 22 juillet; nous combions d'autres postes afin de nous doter des ressources adéquates pour nous acquitter de ces nouvelles fonctions. Nous avons l'intention de présenter le premier rapport « vert » au Parlement au premier trimestre de 1997.

Partie IV : Conclusion

163. Dans ce chapitre, j'ai discuté d'un certain nombre de questions que je considère d'une importance particulière, dont toutes sont touchées d'une manière ou d'une autre par les changements que le gouvernement connaît. Les plus dignes de mention sont la nécessité de contrôler les risques de la sous-gestion, d'améliorer la qualité du service, de profiter des possibilités d'épargne et de suivre généralement le rythme du changement qui s'accélère. J'ai indiqué également comment les événements et les constatations de vérification de cette année ont renforcé quelques-unes de mes préoccupations constantes au sujet du régime fiscal, de la gestion et du contrôle financiers, de la gestion des technologies de l'information, de l'éthique, du rôle des organismes centraux, de la coordination entre les organisations et de la gestion des ressources humaines.

Nous avons l'intention de présenter le premier rapport « vert » au Parlement au premier trimestre de 1997.

Améliorer la reddition de comptes dans la pratique

de comptes et les autres lacunes des modes de financement actuels. Nous avons constaté que les nouveaux modes de financement sont assez semblables aux modes actuels et nous craignons qu'ils n'améliorent pas beaucoup la situation. Cependant, il est encourageant de voir qu'au moment où il s'apprête à les mettre en oeuvre, le Ministère reconnaît que des améliorations doivent y être apportées. Pour cela, le Ministère doit collaborer plus étroitement avec les Premières nations.

151. Les bonnes idées au sujet de la reddition de comptes ne sont valables que si elles sont mises en pratique.

152. Les changements structuraux en cours dans l'administration fédérale créent non seulement la nécessité d'une meilleure reddition de comptes mais fournissent également l'occasion d'appliquer de nouveaux mécanismes et de déterminer lesquels fonctionnent le mieux. De fait, le gouvernement examine différentes façons d'assurer la reddition de comptes à l'égard des nouveaux modes de prestation de services.

153. Notre Bureau participe également à un certain nombre d'initiatives pour favoriser l'amélioration de la reddition de comptes dans la pratique. Nous avons examiné la reddition de comptes au cours de diverses vérifications et avons recommandé des façons d'améliorer les modalités redditionnelles. Un exemple notable de ce rapport est notre vérification du contrôle et de la responsabilisation des activités de sécurité et du renseignement du Canada (chapitre 27), au cours de laquelle nous avons cerné des possibilités

de renforcer les modalités redditionnelles en place.

154. Nous travaillons également directement avec des organisations gouvernementales pour améliorer la reddition de comptes. Dans le contexte d'un projet lancé au cours de l'année écoulée, nous avons fait des suggestions à un certain nombre de sociétés d'Etat sur la façon d'élaborer des indicateurs de rendement et de les utiliser. Et tout au long de l'élaboration du nouveau Système de gestion des dépenses du gouvernement, nous avons fait des suggestions et des critiques aux organismes centraux et aux comités parlementaires.

155. Notre rôle dans l'évaluation de l'information sur le rendement. Dans nos travaux avec l'ACDI, et ailleurs, nous avons encouragé les organisations fédérales à évaluer leur rendement et à rendre compte des progrès, des résultats et de la valeur obtenue en contrepartie de l'argent dépensé. Rien ne permettrait d'améliorer davantage la reddition de comptes que le fait pour les organisations de rendre compte elles-mêmes des résultats obtenus avec les ressources qui leur sont confiées.

156. Si les organisations fédérales veulent communiquer de l'information de bonne qualité sur leur rendement, je suis disposé à envisager de fournir une certaine forme d'assurance sur l'information communiquée. Conformément à un projet de loi déposé à la Chambre des communes, je fournirai une telle évaluation pour la nouvelle agence canadienne d'inspection des aliments qui est créée.

157. Je continuerai d'exercer des pressions pour améliorer la reddition de

Rien ne permettrait d'améliorer davantage la reddition de comptes que le fait pour les organisations de rendre compte elles-mêmes des résultats obtenus avec les ressources qui leur sont confiées.

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Généralement, l'obligation de rendre compte visait à répondre simplement aux besoins de la partie déléguant la responsabilité.

avons aussi cerné des secteurs où des améliorations s'imposent. Par exemple, dans la plupart des cas, il y avait des faiblesses au niveau des procédures visant à ce que le programme « fasse une différence » en provoquant de l'investissement supplémentaire en plus de celui qui aurait été effectué en son absence. Nous estimons que jusqu'au tiers des dépenses engagées au titre du programme en 1994 n'ont pas suscité d'investissement supplémentaire dans l'infrastructure. Dans certaines régions du pays, les ententes en place avaient le potentiel de donner de meilleurs résultats.

145. Les ententes fédérales-provinciales qui ont fourni le premier cadre administratif du programme n'ont pas établi d'exigences claires en ce qui a trait à la communication de l'information continue sur le rendement ou aux vérifications de conformité. Dans la pratique, nous avons constaté que la surveillance du rendement était faible, voire inexistante. Qui plus est, des vérifications en temps opportun du respect des modalités du programme n'ont pas été effectuées dans toutes les provinces. Une telle rétroaction est essentielle lorsque le gouvernement fédéral se fie aux autres pour la mise en oeuvre du programme.

146. Les résultats communiqués au Parlement en matière de création d'emplois n'ont pas toujours souligné les carences des méthodes d'estimation ou la possibilité d'un déficit dans les effets du programme sur l'investissement supplémentaire. L'évaluation, qui portait sur un certain nombre de questions clés liées à la conception et aux répercussions du programme, a été complétée à temps pour fournir des données de manière à aider la prise de décisions sur les orientations futures. Cependant, l'évaluation n'a pas suffisamment abordé la question de la réussite du programme

147. Si le programme Travaux d'infrastructure Canada doit être renouvelé ou étendu — ou si d'autres programmes semblables doivent être établis — il sera important de tenir compte des leçons apprises du programme actuel pour l'établissement d'un cadre redimensionnel plus efficace.

148. **Comment les Premières nations voient la reddition de comptes.** Une autre importante leçon au sujet des défis que posent les partenariats pour la reddition de comptes est présentée dans le chapitre 13 de septembre. Généralement, dans les ententes entre parties qui ont des liens hiérarchiques, l'obligation de rendre compte visait simplement à répondre aux besoins de la partie déléguant la responsabilité. Les Premières nations qui ont participé à notre étude croient que les mécanismes redimensionnels devraient servir aux deux parties. Par exemple, les systèmes visant à fournir de l'information des Premières nations au gouvernement et au Parlement devraient être conçus pour répondre également aux besoins d'information des dirigeants et des membres des Premières nations.

149. Cela semble en général une approche acceptable aux partenariats. Si toutes les parties sont bien servies par les mécanismes redimensionnels, il est plus probable que les relations soient efficaces.

150. Dans le cas des Premières nations, les modes de financement, qui sont le principal mécanisme par lequel Affaires indiennes et du Nord Canada officialise ses relations financières avec les Premières nations, sont loin de cet idéal. Dans le chapitre 33 du présent rapport, nous indiquons que le Ministère adoptera de nouveaux modes de financement qui, à son avis, permettront de régler les problèmes liés à la reddition

Lorsqu'un certain nombre de parties sont impliquées, la reddition de comptes peut se trouver diluée.

Nous estimons que jusqu'au tiers des dépenses engagées au titre du programme d'infrastructure en 1994 n'ont pas suscité d'investissement supplémentaire dans l'infrastructure.

certain nombre de parties sont impliquées, la reddition de comptes peut se trouver diluée — préoccupation que j'ai exprimée auparavant.

141. Le cas du programme Travaux d'infrastructure Canada. Le programme

Travaux d'infrastructure, dont nous rendons compte dans le chapitre 26, est peut-être le programme fédéral-provincial le plus visible des dernières années. Les dépenses des divers paliers de gouvernement dépasseront les six milliards de dollars, dont deux milliards sont financés par l'administration fédérale et le reste par les administrations provinciales et municipales et par d'autres initiateurs de projet. Ce sont des montants considérables. Ce programme revêt également une importance, car il est considéré comme un modèle pour les futurs programmes fédéraux-provinciaux, et il pourrait être étendu ou renouvelé.

142.

Le programme est un exemple

du défi que pose la responsabilisation

centrale à l'égard des programmes de

partenariat : quand le gouvernement

confie à d'autres l'administration

quotidienne d'un programme qu'il aide à

financer, de quoi est-il responsable

exactement? Et comment peut-il garantir

qu'il s'acquitte de ses obligations

redditionnelles?

143.

La réponse me semble claire : le

gouvernement fédéral a la responsabilité

d'assurer qu'un cadre administratif

comportant les cinq éléments clés

(paragraphe 135) est établi, que les modes

de prestation sont mis en oeuvre

adéquatement et qu'une information fiable

sur les résultats est communiquée au

144.

Comme le chapitre le décrit, nous

avons constaté qu'un certain nombre

d'aspects importants du cadre

administratif ont bien fonctionné. Nous

ensemble de valeurs à l'appui qui incitent à l'honnêteté et à l'intégrité. Les gens doivent défendre leurs actions et leurs décisions et en assumer la responsabilité — de ce qu'ils ont réalisé et de ce qu'ils n'ont pas réalisé.

138.

Il est essentiel que les ministres à

qui les fonctionnaires rendent des comptes

donnent l'impulsion à ce changement de

culture. Ils doivent faire preuve de

leadership et appuyer une fonction

publique axée sur les résultats, et désirer

apprendre quand les choses ne vont pas

aussi bien que prévu. Qui plus est, avec la

tendance vers une plus grande autonomie

de la fonction publique (par exemple, avec

les nouveaux modes de prestation), des

pressions s'exercent pour que les

responsabilités des fonctionnaires qui

dirigent les organisations gouvernementales

soient définies plus précisément. Dans

certain cas, on met en question les

aspects traditionnels de la responsabilité

ministérielle.

Le défi de la reddition de comptes posé par les programmes conjoints : les leçons tirées du programme Travaux d'infrastructure et du mode de financement des Premières nations

139.

Un concept moderne de la

reddition de comptes doit également

refléter la participation accrue d'autres

parties à la prestation des services

fédéraux. Dans certains cas, les modes de

prestation conjoints sont semblables à des

partenariats, à l'instar des ententes

fédérales-provinciales. Dans d'autres, ils

associent des tiers à la prestation des

services; ainsi, l'ACDI a recours à des

agents indépendants pour assurer la

prestation des services de développement.

140.

Ces modes de prestation

conjoints peuvent procurer de nombreux

avantages, chaque partie apportant son

expertise et sa perspective. Mais lorsqu'un

Je suis convaincu, qu'il faut faire avancer réellement la reddition de comptes. Les hauts fonctionnaires avec qui j'ai discuté partagent ce point de vue.

J'ai fait observer que l'on parlait beaucoup de reddition de comptes à Ottawa, mais que la pratique était beaucoup moins évidente.

132. Les changements que le gouvernement connaît ramènent bon nombre de ces éléments à l'avant-scène. Je suis convaincu, plus que jamais, qu'il faut faire avancer réellement la reddition de comptes. Les propos de hauts fonctionnaires avec qui j'ai discuté récemment et qui partagent ce point de vue me réconfortent. Cependant, l'amélioration de la reddition de comptes n'est pas vraiment au premier rang des priorités énoncées par le gouvernement pour la fonction publique.

Pourquoi la reddition de comptes est-elle importante?

133. Je considère la reddition de comptes comme un mécanisme correctif, un peu comme le système de correction de la trajectoire d'un aéronef. Quand les mécanismes redditionnels des institutions publiques fonctionnent bien, les problèmes qui surviennent de temps à autre sont décelés, — soit par l'institution, soit par le Parlement ou par l'examen public — reconnus honnêtement et corrigés rapidement. Trop souvent, les Canadiens ont le sentiment qu'on ne leur en dit pas assez.

Il pourrait être injuste de tenir les fonctionnaires responsables de l'obtention de résultats qui est en grande partie indépendante de leur contrôle.

134. Si nous voulons que la reddition de comptes progresse réellement, des efforts s'imposent dans deux domaines. Il faut une vision moderne et claire de ce qu'est la reddition de comptes. Puis nous devons la mettre en pratique. Notre Bureau travaille activement dans ces deux domaines.

Ce qu'une reddition de comptes moderne suppose

135. Grâce à ce que nous avons appris au cours de nos vérifications des mécanismes redditionnels, nous avons pu cerner une série de cinq éléments clés sans lesquels la reddition de comptes (ou responsabilisation) est fort affaiblie :
- des rôles et des responsabilités clairs;
 - des objectifs et des attentes de rendement clairs;
 - des attentes de rendement qui correspondent aux capacités (pouvoirs, compétences et ressources) de chaque partie;
 - la communication en temps opportun d'information crédible sur les réalisations et les leçons apprises;
 - un examen éclairé du rendement obtenu, suivi d'une rétroaction, au cours desquels les réalisations sont reconnues et les corrections nécessaires sont apportées.

136. Rendre compte des résultats en plus de rendre compte du respect des autorisations suppose différentes attentes en matière de relations redditionnelles. Les résultats recherchés dans le secteur public sont souvent difficiles à obtenir. Dans de nombreux cas, il pourrait être injuste de tenir les fonctionnaires responsables de l'obtention de résultats qui est en grande partie indépendante de leur contrôle. Mais il est juste, dans tous les cas, d'exiger que les fonctionnaires fassent tout leur possible pour optimiser les chances que les résultats souhaités soient obtenus, tout en suivant quand même le processus établi.

137. Les éléments mentionnés ci-dessus sont essentiels, mais ne sont pas suffisants pour assurer la reddition de comptes. Des changements culturels importants s'imposent aussi. Il faut un

Dans les administrations qui publient de bons rapports redditionnels, les chefs politiques en ont souvent été l'élément moteur.

128. L'idée d'une telle loi mériterait réflexion. Non seulement elle limiterait la capacité du gouvernement d'éviter de rendre des comptes, mais elle permettrait aussi au Parlement de prouver l'importance qu'il y attache. Cette exigence serait maintenue, quels que soient les changements politiques ou administratifs. C'est une idée que les parlementaires pourraient vouloir étudier.

129. Néanmoins, il est possible de faire avancer la reddition de comptes sans avoir recours aux lois. Même avec une loi, la réussite dépendra de l'engagement véritable des fonctionnaires de fournir de l'information redditionnelle significative et crédible. Bien sûr, on risque de fournir des armes aux critiques, mais devant le scepticisme à l'endroit des institutions gouvernementales, néglier de prouver les résultats obtenus avec les dollars des contribuables fait courir un risque bien plus grand.

Le gouvernement évolue, la reddition de comptes doit elle aussi évoluer

130. Informer les parlementaires et les Canadiens des résultats obtenus avec les dollars des contribuables — le sujet de la section précédente — n'est qu'un élément d'une question plus vaste, la reddition de comptes dans l'administration fédérale.

131. Ce n'est pas la première fois que je parle de reddition de comptes. Peu après être devenu vérificateur général en 1991, j'ai acquis la conviction que la nécessité d'améliorer la reddition de comptes était l'un des défis les plus pressants du gouvernement fédéral. Cet automne-là, dans mon premier rapport,

d'être mieux informés au sujet du gouvernement. Mais il ne manque pas d'autres priorités concurrentielles.

124. Si les parlementaires et les groupes intéressés veulent être mieux informés au sujet du gouvernement, ils doivent prouver clairement et continuellement qu'ils considèrent cela comme une priorité. Il y a plusieurs années, le haut fonctionnaire chargé de l'amélioration des rapports des ministères avait indiqué que c'était comme prêcher dans le désert : il fallait une plus forte demande de la part des parlementaires et du public. Dans les administrations qui publient de bons rapports redditionnels, les chefs politiques en ont souvent été l'élément moteur.

125. Par ailleurs, ce qui est peut-être plus important, la lenteur des progrès vient de l'attitude des fonctionnaires. Pour plusieurs, communiquer les résultats ce n'est rien de plus que de fournir des munitions aux critiques. Ce point de vue doit être mis en question et changé.

126. Il faut un leadership pour que la mesure des résultats fasse partie intégrante des organisations. Communiquer de l'information sur les résultats ne doit pas être laissé aux seuls évaluateurs de programme et autres spécialistes de la mesure; chaque gestionnaire doit rendre régulièrement compte de ses résultats par la voie hiérarchique jusqu'au ministre et, en bout de ligne, à ceux en dehors de l'organisation. La communication des résultats doit être considérée comme un moyen de prouver ce que l'on a réalisé et appris.

127. Est-il temps de songer à des mesures législatives? Certaines administrations — les États-Unis, la Nouvelle-Zélande, l'Australie-Occidentale, l'Alberta et d'autres — ont adopté, ou envisagent d'adopter, une loi

La mesure sert à éclairer le débat sur les questions de l'heure, et non à y mettre fin.

Dans le passé, je me suis souvent senti frustré par l'inaction; maintenant, je manifeste un optimisme prudent sur les chances de progrès.

Les efforts récents semblent prometteurs

116. Comme chacun d'entre nous peut attacher une valeur différente à divers aspects du rendement, il se peut que nous arrivions à diverses évaluations du rendement obtenu. La mesure sert à éclairer le débat sur les questions de l'heure, et non à y mettre fin.

117. Bien que les carences de l'information communiquée sur les résultats persistent depuis longtemps, des changements encourageants sont survenus au cours de l'année. Dans le passé, je me suis souvent senti frustré par l'inaction; maintenant, je manifeste un optimisme prudent sur les chances de progrès.

118. À la suite des préoccupations exprimées par notre Bureau, et par la Commission royale sur la gestion financière et l'imputabilité (la Commission Lambert) de 1979, les rapports au Parlement sur les dépenses des ministères se sont améliorés considérablement au début des années 80 avec l'introduction de la Partie III du *Budget des dépenses*. En 1992, notre Bureau a réalisé un examen des parties III des ministères. Notre rapport reflétait la frustration de nombreux parlementaires et fonctionnaires au sujet de ces rapports. Nous avons formulé une série de recommandations pour rendre ces rapports plus utiles.

119. On a mis du temps pour donner suite à notre rapport de 1992, mais des mesures importantes ont été prises au cours de la dernière année. Le gouvernement procède à une réforme de l'information communiquée dans le *Budget des dépenses* dans le cadre d'une initiative plus vaste de révision du système de gestion des dépenses du gouvernement. À maintes occasions, j'ai manifesté mon appui envers cette initiative et l'orientation qu'elle prend. La question clé est de savoir si les bonnes idées pourront être concrétisées. Bien que certains projets pilotes fassent état d'améliorations par rapport aux anciens rapports des ministères, il reste encore beaucoup à faire pour atteindre le niveau de qualité des rapports d'autres administrations publiques, notamment celles de l'Alberta.

La volonté de progresser est-elle insuffisante?

121. Les efforts déployés actuellement pour améliorer l'information sur les résultats communiqués ne porteront fruit que si nous comprenons pourquoi les lacunes ont persisté aussi longtemps. Le Bureau étudie actuellement cette question. Pour le moment, permettez-moi de suggérer quelques pistes d'explication.

122. Rarement une priorité. Tout d'abord, le progrès est lent parce qu'améliorer l'information sur les résultats a rarement été jugé prioritaire. Si les gouvernements avaient jugé cela prioritaire, il y a longtemps que des progrès auraient été réalisés.

123. Améliorer l'information destinée au public n'est pas une priorité en soi. Peu de personnes au gouvernement seront en désaccord avec le principe voulant que les parlementaires et les Canadiens méritent

Ce qu'il faut : de l'information ciblée sur les résultats, et non de l'information en vrac

III. Certains soutiennent qu'il est impossible de mesurer le rendement dans le secteur public. Je ne suis pas d'accord avec cela. Mais le désaccord tient peut-être davantage à ce que l'on entend par la mesure plutôt qu'à l'aspect fondamental de la chose.

112. Pour bon nombre de gens,

« mesurer » veut dire essayer de déterminer précisément l'ampleur de des choses. Notre Bureau considère la

« mesure » dans un sens plus large, c'est-à-dire la collecte d'information pertinente pour améliorer la

compréhension des réalisations d'un programme.

113. Une forme quelconque de mesure est presque toujours possible.

Dans certains cas, on peut mesurer le rendement réel sur le plan quantitatif, mais parfois, des outils de mesure moins précis, comme le point de vue des utilisateurs sur le rendement, suffisent. Tout ne peut pas ou ne doit pas être mesuré par un chiffre. Il faut faire preuve de jugement quand on décide quoi mesurer et quand le faire. Une grande précision est coûteuse et n'est pas toujours justifiée; il faut un équilibre entre le coût et la précision. Si les mesures sont bien faites, les avantages compenseront les coûts.

114. Pour ces raisons, la mesure permettra souvent d'avoir une bonne idée du rendement plutôt que de le prouver. Cela est acceptable dans la mesure où les utilisateurs sont informés des limites, ce que les rapports actuels du gouvernement négligent couramment de faire.

115. La mesure ne remplace pas le jugement sur la valeur des programmes;

Cependant, les progrès ont été plus lents que ce à quoi nous nous attendions, l'ACDI et nous, L'Agence reconnaît franchement qu'il reste encore beaucoup à faire. Nous continuerons de travailler avec elle pour l'aider à relever les défis auxquels elle fait face.

108. Il est risqué de ne pas être en mesure de démontrer les résultats.

Satisfait aux demandes du Parlement ou de notre Bureau n'est pas la seule raison qui pousse l'ACDI à aller de l'avant avec courage et détermination. En période de restrictions et de scepticisme à l'égard du gouvernement, il est plutôt risqué de ne pas être en mesure de démontrer ses résultats clairement et de façon convaincante. Le public ne voit pas les réalisations de l'ACDI et il ne les verra pas tant que celle-ci ne communiquera pas de l'information fiable sur ses résultats. Par ailleurs, le public n'entend surtout parler que des cas problèmes.

109. Qu'il s'agisse de l'aide au développement ou de tout autre service public, de l'information crédible sur les résultats s'avère un outil essentiel. Même lorsque les résultats sont négatifs — et la nature complexe de la gestion des affaires publiques garantit pratiquement que tous ne seront pas positifs — un organisme avisé reconnaît ses faiblesses et les risques qu'il court et explique comment il compte y faire face. La franchise et la candeur laissent souvent peu de munitions aux critiques, et rassurent le public en lui montrant que l'organisme cherche à améliorer la situation.

110. Ce faisant, les organismes gagnent la confiance du public. C'est pourquoi, en bout de ligne, l'information sur les résultats compte.

- 100.** Les résultats qui comptent pour les Canadiens sont les conséquences des programmes publics qui touchent leur vie et leurs conditions de vie, comme la croissance économique et les emplois créés, l'état de l'environnement, l'équité des règlements et des procédures administratives, le niveau de service obtenu quand ils traitent avec le gouvernement et la situation financière de celui-ci.
- 101.** Les Canadiens intéressés par les affaires publiques veulent obtenir de l'information pour leur permettre de se faire une opinion éclairée sur les questions de l'heure. Chaque fois que le gouvernement fournit de l'information de bonne qualité aux Canadiens, je crois que le débat public s'en trouve rehaussé. Deux exemples me viennent à l'esprit. Comme je l'ai fait remarquer plus tôt, l'amélioration de l'information sur la dette et le déficit ces dernières années a aidé à donner aux Canadiens une meilleure appréciation de la situation financière du gouvernement. On peut en dire autant du débat qui a suivi la publication du document de travail intitulé *La sécurité sociale dans le Canada de demain*, grâce aux nombreuses analyses effectuées par des chercheurs indépendants que le gouvernement a diffusées.
- 102. Les Canadiens connaissent mal leur gouvernement.** De nombreux Canadiens en savent très peu sur le gouvernement. Une autre étude réalisée par Les Associés de recherche Ekos inc. montre que l'intérêt envers le gouvernement et de la politique chez les Canadiens sont faibles, et que ce sont les personnes les moins informées qui ont les opinions les plus négatives à son sujet. Voilà qui devrait inciter le gouvernement à expliquer davantage ses activités.
- 103.** Ces raisons pour lesquelles il faut communiquer de l'information de meilleure qualité ne sont pas nouvelles. Ce qui est relativement nouveau — et qui est peut-être à mes yeux la raison la plus importante d'améliorer l'information communiquée — est le niveau de scepticisme du public au sujet de l'efficacité des services publics. Le programme des programmes, il va sans dire que de nombreux Canadiens s'imagineront le pire.
- 104.** Dans le chapitre 29, nous parlons d'un organisme public qui s'efforce d'améliorer l'information qu'il communique sur ses résultats — l'Agence canadienne de développement international (ACDI). Comment faire face aux perceptions du public à l'égard du gouvernement : le cas de l'ACDI
- 105.** Comme l'indique *Le Canada dans le monde*, l'énoncé de politique étrangère du gouvernement, « Les Canadiens veulent que les derniers publics versés à l'aide internationale soient utilisés efficacement. En outre, ils veulent améliorer le sort des personnes bénéficiaires... ». Mais les études montrent que les Canadiens sont de plus en plus sceptiques face aux résultats véritables de l'aide.
- 106.** Parallèlement, l'ACDI — l'organisme responsable de l'acheminement de l'aide publique au développement fournie par le Canada — s'efforce de réorienter sa philosophie de gestion vers l'atteinte et la communication des résultats.
- 107.** Dans notre rapport (chapitre 29), nous indiquons que l'Agence y a consacré énormément d'énergie et qu'elle a adopté une orientation axée sur les résultats.

La raison la plus importante d'améliorer l'information communiquée est le niveau de scepticisme du public au sujet de l'efficacité des services publics.

parlementaires et aux Canadiens est un des problèmes les plus courants que nous constatons dans nos vérifications — et cela depuis fort longtemps. C'est également un problème que le gouvernement a reconnu et, comme je le décris plus loin, un problème auquel il a commencé à s'attaquer.

97. Avant de passer aux raisons pour lesquelles ce problème persiste et ce qu'il faut faire à ce sujet, il vaut la peine d'expliquer pourquoi je considère que ces problèmes revêtent une importance considérable.

Restaurer la confiance envers le gouvernement : pourquoi l'information sur les résultats compte

98. Les raisons pour lesquelles les parlementaires ont besoin d'information de bonne qualité sur les résultats découlent de l'essence même de notre régime démocratique : le rôle du Parlement est de tenir le gouvernement comptable. Qu'il s'agisse de voter des crédits annuels, d'examiner les priorités et les plans pour les années à venir ou d'examiner le rendement antérieur, les parlementaires ont besoin d'information de bonne qualité sur les résultats et les résultats du gouvernement.

99. Cette information intéresse aussi de nombreux Canadiens ordinaires. À titre de votants, ils exigent également du gouvernement qu'il leur rende des comptes. À titre également de contribuables, ils veulent savoir ce qu'ils obtiennent en contrepartie des impôts qu'ils payent. Une étude effectuée récemment par Les Associés de recherche Ekos inc. a révélé que le moyen cité le plus souvent par les Canadiens pour améliorer la régie était « la reddition de comptes à l'égard des résultats mesurés et de l'efficacité ».

communiquer nos constatations plus tard cette année ou au début de 1997.

93. Nous avons établi trois critères généraux pour évaluer la situation financière des gouvernements : le fardeau de la dette est-il **supportable**? Le gouvernement a-t-il la **latitude** d'obtenir des recettes en taxant (ou en empruntant, s'il le faut), et est-il **vulnérable** à des forces qu'il ne contrôle pas. Le groupe de travail est en voie d'établir un jeu d'indicateurs principaux pour chacun de ces trois critères.

94. Le groupe reconnaît qu'il n'existe pas de jeu d'indicateurs ou de données répétées qui puissent fournir un tableau tout à fait clair de la situation financière. Dans ce domaine, le jugement interviendra toujours dans l'opinion qu'on aura. Mais grâce à l'information fournie par ce jeu d'indicateurs principaux, les points de vue sur la situation financière devraient être moins subjectifs.

95. En 1994, le gouvernement a produit son premier rapport financier annuel succinct, intégrant les cinq indicateurs que nous avions recommandés l'année précédente. Je crois que la prochaine étape importante pour le gouvernement consisterait à revoir le rapport financier annuel pour inclure les indicateurs proposés par l'ICCA.

Le gouvernement doit faire davantage pour rendre compte aux parlementaires et aux Canadiens

96. L'information communiquée sur la dette et les déficits s'est améliorée ces dernières années, mais on ne peut en dire autant du reste de l'information communiquée par le gouvernement fédéral. La nécessité de fournir une information de meilleure qualité aux

L'insuffisance de l'échange d'information sur les dossiers des délinquants a entraîné des retards et des coûts supplémentaires, et a posé des risques inutiles pour la sécurité.

Les progrès à l'égard de l'information financière sont encourageants — mais il ne faut pas croire que le travail est terminé.

encourageants. Je sens un changement d'attitude dans la fonction publique. Au sein de groupes d'étude, des hauts fonctionnaires ont consacré énormément de temps et d'énergie à examiner des questions intéressant plusieurs ministères et organismes. De plus, des hauts fonctionnaires ont parlé énormément de la nécessité d'une meilleure coordination, notamment dans le domaine de l'élaboration des politiques dans l'administration fédérale.

86. Je pense qu'ils doivent aussi se pencher sur la nécessité d'une meilleure coordination des activités, et non seulement au niveau fédéral. L'exemple du Service correctionnel Canada — La réinsertion sociale des délinquants (chapitre 30) du présent rapport montre ce qui arrive quand la coordination est insuffisante : l'insuffisance de l'échange d'information entre les administrations fédérale, provinciales et municipales sur les dossiers des délinquants et sur d'autres aspects pertinents a entraîné des retards et des coûts supplémentaires, et a posé des risques inutiles pour la sécurité.

Renouveler la gestion des ressources humaines

87. La nécessité de rationaliser les structures et les règles qui régissent la gestion des fonctionnaires continue de me préoccuper.

88. Les premiers efforts pour supprimer les obstacles auxquels sont confrontées les personnes qui gèrent le personnel scientifique (chapitre 15) sont encourageants. Cependant, comme le décrit le chapitre 5 de notre rapport de mai, il a fallu environ six ans pour réaliser la réforme du système de classification et d'évaluation des postes dans la fonction publique — système que de nombreuses personnes considèrent comme la pierre

angulaire de la gestion des ressources humaines — mais celle-ci est toujours incomplète. Qui plus est, nous avons conclu qu'il était encore possible de simplifier le système.

Partie II : Information et reddition de comptes

Pour mieux faire comprendre la situation financière du gouvernement

89. L'une des questions que je continue de juger prioritaire à titre de vérificateur général est la qualité de l'information financière que le gouvernement fédéral communique aux parlementaires et aux Canadiens. Les progrès sont encourageants — mais il ne faut pas croire que le travail est terminé.

90. Je suis heureux que notre message de l'an dernier — à savoir qu'il est tout aussi important de s'intéresser au niveau de la dette qu'à celui du déficit — ait été repris par d'autres. Le gouverneur de la Banque du Canada et le Comité des finances de la Chambre des communes ont appuyé nos suggestions, à l'instar d'un certain nombre d'experts du domaine. Le gouvernement lui-même a déclaré que le ratio de la dette par rapport au produit intérieur brut devait être réduit.

91. Je crois que le gouvernement peut continuer d'améliorer l'information financière et, plus particulièrement, la situation financière.

92. Un groupe de travail réuni par l'Institut Canadien des Comptables Agréés (ICCA) a été chargé d'élaborer un cadre d'indicateurs permettant de mieux comprendre la situation financière globale des gouvernements fédéral et provinciaux. Je préside ce groupe et nous prévoyons

**Les résultats de notre
vérification, cette
année, de quatre
grands projets de
technologie de
l'information ne sont
pas meilleurs qu'en
1995.**

**Décentralisation administrative :
clarifier le rôle des organismes centraux**

81. Au cours de la dernière décennie,

nous avons assisté à une forte décen-
tralisation du pouvoir administratif, ce qui
a donné aux gestionnaires la souplesse

dont ils ont grandement besoin pour
s'adapter aux changements rapides. L'an
dernier, je discutais d'un certain nombre

de questions qui, à mon avis, devaient être
régies pour que la décentralisation
administrative puisse réussir.

82. Je m'interrogeais, entre autres,
sur la façon dont un organisme central
moderne — en particulier, le Secrétariat

du Conseil du Trésor — devrait
fonctionner. Par exemple, au cours de nos
vérifications, nous nous posons souvent la

question suivante : dans quelle mesure le
Secrétariat du Conseil du Trésor devrait-il
surveiller activement les activités des

ministères?

83. Je trouve encourageant que le
Secrétariat se soit engagé, dans son

Document de perspectives annuelles
publié à l'intention du Parlement, à revoir
ses activités et à élaborer « un cadre de

responsabilisation dans lequel seront
indiqués clairement les liens entre le
Secrétariat et d'autres organisations

gouvernementales et leurs responsabilités
respectives ». S'il est mis en oeuvre avec
succès, ce cadre devrait permettre aux

parlementaires et à notre Bureau, entre
autres choses, de déterminer qui doit être
tenu responsable de situations en

particulier.

**Meilleure coordination entre les
organisations**

84. Les Canadiens s'attendent à ce
que les organisations financées par les
contribuables coordonnent leurs activités
et travaillent en coopération.

85. Au cours de l'année écoulée,
nous avons constaté quelques signes

efficacement et proactivement, comme
nous en faisons état dans le chapitre 24.

77. Les efforts déployés par le

Secrétariat du Conseil du Trésor, l'an
dernier, pour concevoir un nouveau cadre
de gestion des projets de technologie de

l'information constituent un pas dans la
bonne voie. Étant donné que des projets
de technologie de l'information, dont nous

estimons la valeur à plus de cinq milliards
de dollars, sont soit en cours ou prévus, il
est essentiel que les investissements soient

gérés de façon à garantir au gouvernement
l'obtention des résultats escomptés. Nous

avons l'intention de continuer d'examiner
les projets de technologie de l'information
jusqu'à ce que nous ayons la certitude que

les principes de gestion saine des projets
et de gestion efficace du risque sont
appliqués.

Normes d'éthique au gouvernement

78. En mai 1995, nous avons
communiqué les résultats de notre étude

de la sensibilisation à l'éthique et à la
fraude au gouvernement, dont l'une des
conclusions était que la base d'éthique de

la fonction publique, bien que solide,
méritait qu'on s'y arrête. J'ai souligné
que l'éthique devait faire l'objet de

discussions franches, même si cela est
difficile.

79. La question a suscité un peu
d'intérêt depuis. Au cours des derniers
mois, le groupe d'étude a présenté ses

constatations et tenu de larges
consultations à leur sujet. Nous sommes
heureux de constater que le groupe

d'étude est en faveur d'« un régime
d'éthique », semblable au cadre d'éthique
que nous avions proposé dans notre étude.

80. J'ai l'intention de réexaminer la
question de l'éthique dans des rapports
ultérieurs.

Comme le décrivent les paragraphes 50 à 54 du présent chapitre, nous avons constaté des faiblesses dans le contrôle du volet Invalidité du RPC et des programmes de prestation fiscale pour enfants et de crédit pour la TPS.

74. Ces exemples soulèvent une question plus fondamentale : dans quelle mesure la gestion et le contrôle financiers dans les organisations fédérales sont-ils suffisamment rigoureux ? Nous avons acquis la conviction que les ministères et les organismes centraux doivent évaluer plus systématiquement leurs compétences financières internes. Il s'agit ici d'évaluer tous les aspects dont la capacité fondamentale de contrôler les actifs, les recettes, les dépenses et les passifs jusqu'à la capacité de produire et d'utiliser de l'information financière prospective pour appuyer la planification et la prise de décision.

75. Nous avons entrepris un certain nombre de vérifications de la gestion et du contrôle financiers dans les ministères. De plus, nous travaillons avec des hauts fonctionnaires pour élaborer un moyen plus efficace de mesurer la capacité des organisations d'exercer la gestion et le contrôle financiers. Les résultats de ces travaux seront communiqués à compter de l'an prochain.

Gestion des risques des projets de technologie de l'information

76. Depuis quelques années, nous nous inquiétons des risques importants que posent les grands projets de technologie de l'information qui ne sont pas bien gérés. Notre vérification, l'an dernier, de quatre systèmes a révélé qu'un seul était géré adéquatement. Les résultats de notre vérification, cette année, de quatre autres grands projets de technologie de l'information ne sont pas meilleurs — une fois de plus, un seul projet était géré

lumièrre la nécessité de renforcer et de rationaliser les activités anti-évitement, d'effectuer des vérifications plus nombreuses et mieux ciblées et de resserrer les contrôles de base.

72. Compte tenu de l'accent

considérable mis sur le régime fiscal, il n'est pas surprenant que nous ayons cerné un grand nombre de questions fiscales. Un examen tout aussi exhaustif d'autres secteurs de l'administration fédérale pourrait bien fournir une liste de questions tout aussi longue. Néanmoins, l'importance cruciale de l'assiette fiscale du Canada — la raison première pour laquelle nous continuons de consacrer des ressources considérables au régime fiscal — rend d'autant plus importantes les mesures prises à cet égard. Comme nous l'avons vu dans le cas des fiduciaires familiales, nos vérifications peuvent contribuer à améliorer sensiblement l'équité du régime fiscal. L'an prochain, nous rendrons compte d'un suivi complet des mesures prises par le gouvernement sur les questions fiscales soulevées dans nos rapports des dernières années.

Gestion et contrôle financiers plus rigoureux

73. L'an dernier, j'ai dit que mon personnel continuait de constater des problèmes importants dans la gestion et le contrôle financiers d'un large éventail d'activités gouvernementales. D'autres exemples sont apparus au cours de l'année écoulée. Par exemple, un certain nombre de chapitres font état de décisions importantes prises sans information adéquate sur les coûts ni analyses; ce sont notamment le chapitre 5 (La réforme de la classification et de l'évaluation des postes dans la fonction publique), le chapitre 17 (Régime de pensions du Canada — Invalidité) et le chapitre 32 (Parcs Canada — La gestion des canaux historiques).

Des décisions importantes ont été prises sans information adéquate sur les coûts ni analyses.

Nous pouvons faire état de certains progrès, mais, dans la plupart des cas, je m'inquiète de l'ampleur du travail qui reste à faire.

Il reste encore de vieilles questions à régler

68. En essayant de comprendre les points de vue des Canadiens au sujet de leur gouvernement, il ne faut pas sous-estimer les dommages qu'un mauvais service peut faire sur les attitudes à l'égard du gouvernement, ou la capacité d'un bon service de les améliorer.

69. Un certain nombre de questions soulevées dans les années passées sont toujours pertinentes. Je les ai décrites en détail dans des rapports précédents et j'en parle brièvement ici pour expliquer pourquoi elles continuent de revêtir une importance particulière. Nous pouvons faire état de certains progrès, mais, dans la plupart des cas, je m'inquiète de l'ampleur du travail qui reste à faire.

Renforcer le régime fiscal

70. L'importance du régime fiscal du Canada est tout à fait évidente — il est à la source des recettes dont le gouvernement dépend pour financer ses programmes et pour assurer le service de la dette accumulée. Pour cette raison, le rendement et l'équité du régime fiscal et l'intégrité de l'assiette fiscale ont été l'un des principaux objets de mes travaux de vérification ces dernières années. Les parlementaires de tous les partis nous encouragent à continuer de mettre l'accent sur les questions fiscales.

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reprises à établir des normes de service et à rendre compte de son rendement au regard de ces normes. Par exemple, le Budget de 1994 engageait tous les ministères à élaborer et à publier des normes de service d'ici 1995. Jusqu'à maintenant, les progrès sont lents et inégaux, et souvent le gouvernement ne respecte pas les échéances qu'il s'est fixées.

65. Si le gouvernement doit mettre en oeuvre des normes de service, ce n'est pas seulement pour respecter ses engagements. Il s'impose d'améliorer la qualité du service dans de nombreux domaines, outre les services téléphoniques.

66. C'est là la conclusion d'une recherche menée récemment pour un groupe d'étude composé de sous-ministres et qui a examiné des modèles de prestation de service. Les résultats sont éloquents. On a constaté que les utilisateurs des services publics attachaient la plus grande importance à la rapidité, à la commodité, au fait de recevoir une réponse franche et candide et de pouvoir éviter les tracasseries administratives. Pour chacun de ces critères, entre le quart et la moitié seulement des répondants se sont montrés satisfaits des services obtenus — ce qui représente un écart de taille par rapport aux attentes.

67. Des améliorations importantes s'imposent donc sur plusieurs fronts. Des investissements judicieux dans les technologies de l'information aideraient Les gestionnaires doivent mieux comprendre les attentes des utilisateurs et leurs niveaux de satisfaction. La publication des normes de service peut aider à garantir que les attentes des Canadiens une idée plus précise du genre de service auquel ils peuvent s'attendre.

60. Pour le public, la qualité des services téléphoniques correspond à plusieurs éléments clés : avoir accès au service, recevoir de l'information exacte et être bien traité.

61. Il est clair que la qualité des services téléphoniques fournis aux Canadiens n'est pas acceptable. Par exemple, plus de 90 p. 100 des dizaines de millions de personnes qui ont appelé l'an dernier au sujet des prestations fiscales pour enfants et des crédits pour la TPS se sont heurtées à des lignes occupées. Peu de ministères vérifient le taux d'exactitude de l'information que leurs agents donnent aux personnes qui appellent — un ministère qui le fait a constaté qu'au mieux, le taux d'exactitude des réponses était de 80 p. 100.

62. Le recours accru aux services automatisés peut aider, mais ce n'est pas la seule réponse. Les organisations gouvernementales doivent tout d'abord s'efforcer de comprendre pourquoi des appels en si grand nombre sont nécessaires, et réorganiser leurs activités afin d'en réduire le nombre ou, à tout le moins, d'atténuer les périodes de pointe.

Les ministères gèrent-ils adéquatement la qualité du service?

63. Nous avons examiné les services téléphoniques du gouvernement dans le contexte d'une vérification plus vaste des pratiques des ministères pour gérer la qualité du service (chapitre 14). Dans le secteur privé et le secteur public, il est largement reconnu que les organisations doivent avoir une idée claire des attentes des utilisateurs, comprendre les incidences sur les coûts de divers niveaux de service, établir des objectifs de prestation, mesurer le rendement obtenu et se servir des réactions des clients pour déterminer la meilleure façon d'améliorer le service.

64. Au cours des années 90, le gouvernement s'est engagé à maintenir

publics ont besoin d'une gestion vigilante et attentive, particulièrement quand ils supposent d'énormes dépenses qui peuvent augmenter rapidement. Une bonne gestion aidera à garantir qu'il y aura de l'argent pour financer, à l'avenir, les programmes auxquels les Canadiens attachent de l'importance. La sous-gestion n'est pas une possibilité — on ne peut tout simplement pas laisser les programmes publics sur le « pilote automatique ».

L'importance de la qualité du service

58. L'idée que les Canadiens se font du gouvernement vient dans une grande mesure de leur premier contact avec les services publics. La façon dont nous sommes traités par les fonctionnaires — les agents des Douanes aux aéroports, l'agent de Revenu Canada qui répond aux demandes par téléphone et le préposé à l'emploi du centre d'emploi — laisse une impression durable. La qualité du service compte.

59. Pour examiner comment la qualité du service est gérée, comme nous en rendons compte dans notre rapport de septembre (chapitre 14), nous avons choisi le cas des services téléphoniques. Une proportion importante et croissante des contacts entre les Canadiens et le gouvernement se fait par téléphone — les six grands services téléphoniques du gouvernement que nous avons examinés pour le chapitre 14 reçoivent 30 millions d'appels par année. Nous avons examiné d'autres services téléphoniques particuliers dans le chapitre 19 sur les programmes de prestation fiscale pour enfants et de crédit pour la taxe sur les produits et services et dans le chapitre 20 sur l'unification administrative de Revenu Canada.

On ne peut tout simplement pas laisser les programmes publics sur le « pilote automatique ».

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Un des rares ministères à vérifier le taux d'exactitude des réponses l'a établi au mieux à 80 p. 100.

- 51.** Ces faiblesses dans les contrôles essentiels ainsi que d'autres lacunes décrites dans le chapitre font courir indubitablement au gouvernement le risque que le volet Invalidité du RPC verse des prestations à des bénéficiaires qui n'y ont plus admissibles, ou qui ne l'ont jamais été. Dans mon opinion sur les états financiers du RPC de 1995, j'ai signalé que le montant des prestations d'invalidité payées en trop pourrait être beaucoup plus élevé que l'estimation de la direction, qui s'établissait à 14 millions de dollars.
- 52.** L'administration des prestations fiscales pour enfants et des crédits pour TPS (chapitre 19, Revenu Canada — Les programmes de prestation fiscale pour enfants et de crédit pour la taxe sur les produits et services, rapport de septembre) affiche des signes de sous-gestion semblables. Jusqu'en août 1995, Revenu Canada partageait la responsabilité de l'administration des prestations fiscales pour enfants avec Développement des ressources humaines Canada.
- 53.** Le lancement des deux programmes a été bien géré, mais nous avons constaté que le risque de non-détection des erreurs, des fraudes et des abus est élevé en raison de l'absence de certains mécanismes de contrôle de base. Par exemple, le contrôle sur l'inscription initiale des enfants pour les prestations fiscales pour enfants ou les crédits pour TPS est faible. Contrairement à d'autres administrations qui exigent un certificat de naissance ou une autre preuve d'admissibilité, les deux programmes reposent presque exclusivement sur la bonne foi des requérants. Dans le cas des prestations fiscales pour enfants, nous avons constaté que des milliers de nouveau-nés n'ayant pas droit aux
- 54.** Comme les paiements effectués à ce jour au titre des prestations fiscales pour enfants et des crédits pour la TPS atteignent plus de 30 milliards de dollars, on quelque huit milliards de dollars par année, il y a lieu de juger la situation inquiétante. Cependant, le fait que Revenu Canada ait préparé un plan d'action qui porte sur bon nombre des observations soulevées dans mon rapport est encourageant.
- 55.** Les raisons de la sous-gestion des programmes sont nombreuses. On peut manquer de ressources pour l'administration du programme. Le risque est plus grand en période de restrictions financières. C'est l'une des raisons pour lesquelles le travail d'un vérificateur législatif moderne doit aller au-delà de la recherche du « gras » dans l'administration publique. De fait, parfois le problème est le sous-investissement — pas les dépenses en trop — dans l'administration des programmes.
- 56.** Dans d'autres cas, les ressources administratives peuvent être suffisantes, mais elles peuvent avoir été affectées à des fonctions moins importantes. Ou, tout simplement, il est parfois plus important d'émettre le bon chèque.
- 57.** Quelles que soient les raisons, ces exemples illustrent pourquoi les services

48. Dans le passé, l'approche adoptée pour relever ces défis a souvent été prudente et assez lente. Vu le rythme des événements aujourd'hui, cette approche n'est plus acceptable.

Les risques de sous-gestion du volet invalidité du RPC et ailleurs

49. Pour tout programme public, certains contrôles de gestion sont essentiels — sans lesquels les risques de non-optimisation des ressources sont grands. Si de nombreux contrôles essentiels n'existent pas ou sont clairement insuffisants, j'estime que le programme est sous-géré. C'est un problème dont j'ai discuté dans ce chapitre l'an dernier. Cela correspond à notre évaluation de l'état du volet Invalidité du Régime de pensions du Canada, que nous présentons dans le chapitre 17 du rapport de septembre (Régime de pensions du Canada — Invalidité).

50. Les bénéficiaires à long terme de programmes d'assurance-invalidité doivent être réévalués régulièrement pour s'assurer qu'ils demeurent admissibles à ceux-ci. Mais le personnel du volet Invalidité du RPC ne réévalue que peu de cas. Les décisions des évaluateurs doivent être revues pour veiller à ce que les requérants soient traités de façon équitable et uniforme. On n'a pas mis en place un contrôle systématique officiel de la qualité pour le volet Invalidité du RPC. Il est également essentiel de posséder de l'information sur l'évolution des coûts et des dossiers — mais les systèmes d'information du RPC sont peu utiles pour fournir des signaux d'alerte anticipés et des explications des raisons pour lesquelles les prestations ont triplé au cours de la dernière décennie et atteignent maintenant près de trois milliards de dollars par an.

43. Je crois que le fait de mettre en lumière les possibilités d'épargne est l'une des plus importantes contributions que nos vérifications peuvent faire. En période de restrictions, ces possibilités sont trop importantes pour que l'on n'en tienne pas compte.

L'administration fédérale doit évoluer au rythme des événements

44. Le fait que nos vérifications permettent de déceler des lacunes n'est pas surprenant. Dans toute organisation aussi complexe que l'administration fédérale, il existera toujours des lacunes qu'il faudra combler. La gestion est un processus sans fin de détermination des problèmes et des changements et de réaction à ceux-ci.

45. Mais le rythme des changements augmente formidablement. Les organisations gouvernementales doivent donc être en mesure de réagir plus rapidement, mais de façon tout aussi cohérente et réfléchie.

46. Le public exige davantage d'ouverture, plus de consultations, de meilleurs services et plus de résultats. Les technologies évoluent rapidement, surtout les technologies de l'information. Les capitaux, la main-d'oeuvre, les marchés et la connaissance même n'ont plus de frontières. Les restrictions financières entraînent des compressions des dépenses qui touchent presque toutes les organisations, certaines lourdement. De nombreux programmes sont radicalement remodelés et de nouveaux modes de prestation des services voient le jour. Les nouvelles questions évoluent rapidement, et touchent souvent plusieurs organisations gouvernementales.

47. Faire face simultanément à toutes ces pressions est « comme marcher sur des oeufs », a déclaré un fonctionnaire.

Les organisations gouvernementales doivent être en mesure de réagir plus rapidement, mais de façon tout aussi cohérente et réfléchie.

Si de nombreux contrôles essentiels n'existent pas ou sont clairement insuffisants, j'estime que le programme est sous-géré.

**Selon une estimation
faite par le
gouvernement en
1995, l'élimination des
stocks excédentaires
pourrait permettre
d'épargner jusqu'à
1,25 milliard de dollars
par année.**

devrait encourager une meilleure gestion des créances non fiscales et permettre de générer, selon nos estimations, jusqu'à 17 millions de dollars de recettes supplémentaires par année.

● Dans le chapitre 6 de mai (Le

maintien de la paix : Affaires étrangères

et Commerce international Canada), nous

indiquons que la haute direction doit

accorder plus d'attention au recouvrement

des montants dus par les Nations Unies au

Canada. Nous pensons que notre

vérification a contribué à accroître la

priorité donnée au recouvrement et que les

efforts déployés en conséquence ont

permis une augmentation des sommes

recouvrées. À preuve, 88 p. 100 des

75 millions de dollars recouvrés des

Nations Unies en 1995-1996 l'ont été au

cours du second semestre de l'exercice,

après que nous eûmes commencé à en

faire rapport à la direction.

42. En plus de cerner des possibilités

d'épargne directe, nos vérifications

permettent de déceler des possibilités

d'utiliser les ressources plus

judicieusement. Par exemple, en mai,

nous avons indiqué, dans le chapitre 9,

qu'une meilleure évaluation du risque

pourrait permettre à Agriculture et

Agroalimentaire Canada d'accroître

l'efficacité des inspections liées à la santé

des animaux et à la protection des

végétaux, sans augmenter les coûts. Même

si ces améliorations comportent

manifestement de nombreux avantages, il

serait très difficile d'en estimer la valeur.

Il est parfois également difficile de

déterminer dans quelle mesure nos

vérifications contribuent aux économies

comparativement aux mesures que les

gestionnaires des ministères auraient

prises sans nos rapports. Nous décrivons le

genre d'incidences que peuvent avoir nos

travaux dans notre partie III du Budget des

dépenses.

certaines de millions de dollars dépendent

du succès de ces mesures.

● Le Secrétaire du Conseil du Trésor a

accepté bon nombre des recommandations

que nous avons faites dans le chapitre 12

de l'an dernier et le chapitre 24 de cette

année concernant l'amélioration de la

gestion des projets de technologie de

l'information. Récemment, le Secrétaire

a publié son estimation des économies que

pourrait permettre la modification du

mode de gestion des projets de

développement des gros systèmes, soit

plus d'un milliard de dollars sur des

projets d'une valeur de 2,7 milliards

de dollars.

● Dans le chapitre 34, nous indiquons

que la Défense nationale a déterminé que

des améliorations de la productivité

pourraient lui permettre d'épargner près

de 200 millions de dollars par année. Nous

présentons dans le chapitre des

recommandations sur la façon dont le

Ministère peut améliorer la productivité

pour réaliser des économies encore plus

importantes.

● Par suite de notre vérification des

activités du volet Invalidité du Régime de

pensions du Canada (RPC), dont nous

communiquons les résultats dans le

chapitre 17 de septembre, nous estimons

que l'échange d'information entre le RPC

et d'autres assureurs sur l'arrêt des

prestations pourrait permettre de réduire

le montant des prestations d'invalidité du

RPC de 42 millions de dollars par année.

41. Le gouvernement a également

donné suite, dans certains cas, aux

possibilités recensées dans nos rapports

de vérification antérieurs :

● À la suite de notre vérification de

1995, le Conseil du Trésor a agi

rapidement pour adopter de nouveaux

régléments sur l'imposition d'intérêt sur

les sommes qui sont dues à l'État. Cela

36. Bien que dans son rapport de septembre 1996, le Comité permanent des finances indique que le vérificateur général « mérite des remerciements pour avoir attiré l'attention du Parlement sur ces dispositions fiscales », le Comité a critiqué la façon dont nous avons présenté la question. Plus précisément, le rapport indique que nous avons divulgué plus d'informations au sujet de certains contribuables qu'il n'était nécessaire. Cependant, le rapport n'indique pas que nous avons contrevenu aux lois concernant la confidentialité.

37. En qualité de vérificateur au service du Parlement, je respecte profondément le droit des parlementaires d'en arriver à leurs propres conclusions sur les questions que nous signalons. Quoiqu'il en soit, je maintiens ce que nous avons déclaré dans le rapport de vérification, et je suis fier de la qualité des travaux de vérification effectués par mon personnel. Je demeure convaincu qu'il s'agissait de questions que j'avais le devoir de communiquer au Parlement et que l'information que nous avons divulguée sur les opérations était nécessaire pour informer adéquatement le Parlement de l'ampleur des questions en jeu.

38. Je crois également que les événements plus récents confirment ma conclusion sur cette question fiscale fondamentale. Le 2 octobre 1996, le ministre des Finances a répondu aux recommandations du Comité en annonçant des changements aux règles fiscales en vue de mettre fin à l'échappatoire que nous avions décelée. En annonçant les changements, le Ministre a déclaré que « le vérificateur général a bien fait son travail de "chien de garde" ». Commentant à la Chambre des communes les changements proposés, le président du Comité des finances a déclaré ce qui suit :

« Nous nous sommes clairement prononcés contre les événements qui se sont produits, c'est-à-dire le fait que les fiduciaires puissent sortir de grandes sommes d'argent du Canada. Nous avons recommandé que ce genre de pratique soit interdit à l'avenir ». Et en réponse aux questions posées en Chambre, le ministre des Finances a déclaré que : « Il importe que nous comprenions (sic) bien ce qui se passe ici. Une loi est entrée en vigueur en 1991. Des contribuables se sont prévalus de cette loi. Le gouvernement a décidé que la loi présentait une échappatoire qu'il fallait corriger ».

39. Je ne crois pas que le Parlement ait eu l'intention de créer des échappatoires dans la *Loi de l'impôt sur le revenu*. Je crois que le fait qu'il existait une échappatoire en 1991 et que certains contribuables l'aient utilisée à leur avantage appuie mes conclusions voulant que l'opération qui a fait l'objet de la décision allait à l'encontre de l'intention du Parlement.

Les possibilités d'épargne

40. Cette année, comme par les années passées, nous faisons état de plusieurs secteurs d'activité où les ministères pourraient réaliser des épargnes importantes. Ces épargnes sont relativement substantielles :

- Depuis 1980, nous constatons des lacunes importantes dans les pratiques de gestion du matériel du gouvernement et, comme le montre le présent rapport, nombre de ces lacunes existent toujours (chapitre 23). L'élimination des stocks excédentaires des ministères pourrait permettre d'épargner jusqu'à 1,25 milliard de dollars en coûts de possession, selon une estimation faite par le gouvernement en 1995. Depuis 1995, les ministères se sont efforcés de réduire les stocks excédentaires et de combler d'autres lacunes connues de longue date. Des

Le Parlement joue un rôle important dans l'amélioration de la gestion dans le secteur public

29. Il arrive que des organisations gouvernementales soient en désaccord avec nos constatations. Même lorsqu'il n'y a pas désaccord, les ministères ne donnent pas toujours à nos constatations la priorité qu'elles justifient. Dans ces cas, en explorant les questions et en suscitant de l'intérêt pour elles, un examen minutieux de la part du Parlement peut faire la différence entre l'action et l'inaction.

30. Ces dernières années, j'ai constaté avec plaisir que les comités parlementaires manifestaient de plus en plus d'intérêt pour les travaux de notre Bureau. En 1995-1996, nous avons témoigné 18 fois devant le Comité des comptes publics et 13 fois devant neuf autres comités.

31. Le Comité des comptes publics étudie automatiquement chacun de nos rapports et choisit certains chapitres sur lesquels il tient des audiences. À la suite des audiences, le Comité dépose des rapports à la Chambre et le gouvernement y répond en décrivant les mesures qu'il entend prendre.

32. De cette façon, le Comité des comptes publics contribue souvent à inciter les organisations gouvernementales à agir. Par exemple, le rapport déposé par le Comité après les audiences sur nos chapitres de 1993 qui portaient sur l'évaluation de programme, encourageait fortement le Secrétariat du Conseil du Trésor à assurer un leadership plus soutenu et demandait à notre Bureau de faire rapport de la suite donnée aux engagements pris par le Secrétariat pendant les audiences. Comme nous en avons fait état dans le chapitre 3 de notre rapport de mai 1996, des mesures visant à

renforcer l'évaluation ont été prises depuis les audiences, grâce, en majeure partie, à l'intérêt manifesté par le Comité.

33. Pour ce qui est des chapitres qui ne font pas l'objet d'audiences, ces dernières années, le Comité des comptes publics a demandé aux ministères responsables des rapports sur l'état d'avancement des mesures prises. Il ne fait aucun doute que cette mesure incite à agir. Le printemps dernier, un membre du Comité a présenté à la Chambre des communes une motion demandant au gouvernement d'adopter une loi exigeant que tous les ministères et organismes déposent une réponse aux rapports du vérificateur général. Il a été réconfortant de constater que les parlementaires de tous les partis ont appuyé cette motion lors d'un vote, le 18 juin.

34. Des signes montrent également que le régime des rapports périodiques adopté par notre Bureau commence à contribuer à la correction plus rapide des problèmes. Par exemple, certaines recommandations que nous avons faites en octobre 1995 au sujet de l'amélioration de l'information communiquée sur les déficits et la dette du secteur public ont été rapidement retenues par le gouvernement dans le contexte de la consultation budgétaire et appuyées en outre par le Comité permanent des finances.

35. Au fil des ans, les rapports des comités parlementaires déposés à la suite de nos vérifications ont généralement appuyé nos conclusions et nos recommandations, à quelques exceptions près. Cette année, notre observation au sujet d'une décision anticipée qui a facilité le transfert à l'étranger en franchise d'impôt d'actifs détenus dans des fiducies familiales (chapitre 1, Autres observations de vérification, mai 1996) a donné lieu à une situation inhabituelle.

Un examen minutieux de la part du Parlement peut faire la différence entre l'action et l'inaction.

Le Comité des comptes publics contribue souvent à inciter les organisations gouvernementales à agir.

Il n'est pas vrai, comme certains le prétendent, que le gouvernement ne s'attaque que rarement aux questions que nous soulevons. Les mesures ne sont pas toujours aussi complètes ou prises aussi rapidement que nous l'aimions, mais elles représentent tout de même des progrès.

commencé à adopter une approche plus stratégique à l'égard des programmes et services publics, avec l'Examen des programmes de 1994. Les ministères ont commencé à voir sous un nouvel angle des questions qu'il était, il n'y a pas si longtemps, impensable de reconsidérer. Ce sont les nouvelles réalités financières qui ont donné la principale impulsion à ce type de changement.

24. À un niveau plus précis, nos

chapitres contiennent de nombreux messages positifs. Dans certains cas, nos conclusions sont généralement favorables, comme celles sur l'unification

administrative de Revenu Canada

(chapitre 20 de septembre) et sur la mise en oeuvre du processus pour les paiements provisoires de 1,2 milliard de dollars aux termes du Programme des paiements de

transition pour le grain de l'Ouest

(chapitre 28). Même les chapitres qui sont très critiques contiennent d'importants messages au sujet d'aspects qui

fonctionnent bien. Trop souvent, l'intérêt suscité par les aspects négatifs de nos rapports fait que les aspects positifs sont

passés sous silence.

Suivi donné aux vérifications précédentes

25. Il est important de reconnaître

que le gouvernement donne suite à nombre de nos constatations. Il n'est pas

vrai, comme certains le prétendent, que le gouvernement ne s'attaque que rarement aux questions que nous soulevons ou aux recommandations que nous formulons.

26. Deux ans après nos rapports, nous réexaminons généralement la situation décrite dans chacun de nos chapitres pour voir quelles améliorations ont été apportées. Cette année, nous rendons compte des résultats de ces travaux dans le chapitre 38 (Suivi des recommandations

formulées dans des rapports antérieurs) et dans d'autres chapitres du Rapport. Un certain nombre de suivis montrent que des progrès réels ont été réalisés comme suite à nos constatations. Ainsi, au chapitre de la gestion de la salubrité des aliments, le gouvernement a entrepris de regrouper tous les services d'inspection des aliments et les programmes de santé des animaux et fédéral en une seule agence d'inspection des aliments. Un projet de loi a été déposé à cette fin à la Chambre des communes.

27. Au cours des deux dernières

années, dans notre partie III du *Budget des dépenses* (documents budgétaires annuels), nous avons présenté de

l'information sur les mesures prises comme suite aux recommandations de nos rapports précédents. Dans le *Budget des*

dépenses 1996-1997, nous rendons compte de l'état d'avancement d'environ 600 recommandations fournies entre

1989 et 1993. Cette information n'est fondée que sur une surveillance limitée, mais elle donne une indication générale de

la mesure dans laquelle le gouvernement donne suite à nos recommandations. Notre personnel de vérification a jugé les

progrès satisfaisants pour plus de 60 p. 100 des recommandations dont nous

avons pu assurer le suivi. Les mesures ne sont pas toujours aussi complètes ou prises aussi rapidement que nous l'aimions, mais elles représentent tout de même des

progrès.

28. En lisant les nombreuses critiques

qui figurent dans ce chapitre et ailleurs dans nos rapports, le lecteur ne doit pas

perdre de vue le fait que, dans la plupart des cas, les ministères considèrent ces

critiques comme constructives et prennent des mesures pour régler les problèmes

sous-jacents, et c'est là l'important, je

Introduction

15. Chaque année, ce chapitre réunit

des questions et des thèmes que je

considère particulièrement importants.

Il porte non seulement sur les chapitres

du présent rapport, mais aussi sur les

chapitres de mes rapports de mai et de

septembre, sur des problèmes exposés

au cours des années passées mais qui

persistent, sur des questions qui découlent

de nos vérifications financières annuelles

et sur des initiatives auxquelles nous

participons.

16. La liste des questions présentées

dans ce chapitre peut paraître longue, mais

elle ne représente qu'une faible partie de

nos travaux.

17. Une fois de plus cette année, le

thème du changement sous-tend la plupart

de mon propos. Qu'on le veuille ou non,

la société change sur tous les plans — de

l'économie mondiale jusqu'à la cellule

familiale.

18. Il existe un lien évident entre

ces changements et mon travail puisque

ceux-ci touchent le gouvernement,

souvent de façons qui ne sont pas encore

tout à fait claires.

19. Les parlementaires — en fait,

tous les Canadiens — s'attendent à ce

que je me préoccupe du fonctionnement

du gouvernement. Il ne suffit pas que je

m'intéresse aux questions de l'heure; les

questions importantes sont bien souvent

de toutes nouvelles questions ou de vieux

problèmes qui prennent une importance

nouvelle.

20. Cette année, je m'attache à une

question primordiale — la nécessité

d'améliorer la reddition de comptes, y

compris la nécessité de communiquer

une information de meilleure qualité au

Parlement et aux Canadiens. Ce n'est pas

non plus une nouvelle préoccupation, mais

elle prend une importance nouvelle vu

l'évolution de notre environnement. Avant

de passer à ce sujet, je veux vous parler

d'un certain nombre d'autres questions

qui, à mon avis, justifient l'attention des

parlementaires et des autres Canadiens.

Partie I : Questions importantes précises

L'amélioration de la gestion

gouvernementale et le travail du

vérificateur général

21. Un certain nombre d'analystes

ont conclu que l'un des changements les

plus importants survenus ces dernières

années a été la perte de confiance envers

les gouvernements. Dans le cadre d'une

récente étude réalisée par Les Associés de

recherche Ekos inc., on a demandé aux

Canadiens leurs points de vue sur un

certain nombre de services publics. Dans

tous les domaines sauf la santé, la plupart

des répondants se sont dits insatisfaits des

services.

22. De nombreux Canadiens

s'imaginent probablement que j'ai

également une opinion négative du

gouvernement, puisqu'une partie de mon

travail en qualité de vérificateur général

consiste à déceler les problèmes.

Evidemment, nos vérifications révèlent

des problèmes. Toutefois, en les mettant

en lumière, nous voulons améliorer la

gestion gouvernementale, pas la

condamner, car tous les Canadiens ont

besoin d'un bon gouvernement.

23. Avant de discuter de certains de

ces problèmes, je pense qu'il est important

de reconnaître également les aspects

positifs, car il y a beaucoup de choses que

le gouvernement fait bien. Pour ma part,

un fait me paraît tout particulièrement

important : le gouvernement fédéral a

Un des changements
les plus importants
survenus ces
dernières années a été
la perte de confiance
envers les
gouvernements.

Il est important de
reconnaître également
les aspects positifs.

Points saillants (suite)

- 11. Possibilités d'épargne.** Je crois que le fait de mettre en lumière les possibilités d'épargne est l'une des meilleures façons de faire une différence par nos vérifications, particulièrement en période de restrictions. Nos vérifications de l'année écoulée ont révélé des possibilités d'épargne importantes, particulièrement au chapitre de la gestion du matériel, des projets de technologie de l'information, de la productivité de la Défense nationale et du volet Invalidité du Régime de pensions du Canada.
- 12. Etablissement de la fonction de commissaire à l'environnement et au développement durable.** En modifiant la *Loi sur le vérificateur général* en décembre dernier, le Parlement nous a confié de nouvelles responsabilités en vérification environnementale qui complètent les travaux que nous avons réalisés ces dernières années dans ce domaine. J'ai nommé M. Brian Emmett au poste de commissaire à l'environnement et au développement durable et nous comptons publier notre premier rapport « vert » au premier trimestre de 1997.
- 13. Autres matières à réflexion.** J'estime qu'il ne faut pas perdre de vue les aspects positifs du gouvernement fédéral. Contrairement à ce que bon nombre semblent croire, le gouvernement prend souvent des mesures pour donner suite aux constatations et recommandations de mon Bureau — pas toujours dans la mesure que nous aimerions, ou aussi rapidement que nous aimerions, mais il agit tout de même. Le gouvernement a commencé à adopter une approche plus stratégique à l'égard des programmes publics et à considérer sous un nouvel angle des questions qu'il était, il n'y a pas si longtemps, impensable de reconsidérer.
- 14.** Il demeure que les défis que le gouvernement fédéral doit relever sont multiples — il suffit d'examiner la longue liste de problèmes exposés dans nos rapports de vérification cette année, lesquels ne représentent qu'une fraction des activités gouvernementales. Les défis à relever sont d'autant plus impressionnants que la société évolue à un rythme plus rapide que jamais. La concertation s'imposera encore plus que dans le passé.

Points saillants (suite)

7. L'amélioration de la reddition de comptes, y compris la communication d'information de meilleure qualité aux parlementaires et aux Canadiens, doit devenir une priorité pour le gouvernement. J'ai l'intention de contribuer, chaque fois que j'en aurai l'occasion, à l'amélioration de la reddition de comptes par mes vérifications et d'autres initiatives, par exemple en fournissant une assurance sur les rapports sur le rendement de la nouvelle agence canadienne d'inspection des aliments.

8. **Un service de meilleure qualité.** La qualité du service fourni par le gouvernement compte : les premiers contacts que les Canadiens ont avec les services gouvernementaux laissent une impression durable. Notre examen des services téléphoniques du gouvernement et d'autres études récentes révèlent qu'une amélioration considérable de la qualité du service s'impose. Le gouvernement s'est engagé à maintenir à l'amélioration la gestion de la qualité du service, mais les progrès sont lents et inégaux. La plupart des ministères n'ont pas établi de normes de service ou communiqué leurs résultats.

9. **Les risques de la sous-gestion.** Les programmes publics exigent une attention rigoureuse de la direction et de bons contrôles, particulièrement les programmes qui mettent en jeu des dépenses importantes qui sont susceptibles d'augmenter rapidement. Notre vérification du volet Invalidité du Régime de pensions du Canada (RPC) et des programmes de prestation fiscale pour enfants et de crédit pour la taxe sur les produits et services a révélé des lacunes dans un certain nombre de contrôles administratifs clés, qui font courir indûment le risque que des prestations soient payées à des personnes qui n'y ont pas droit. Les risques en jeu sont considérables — le gouvernement verse près de trois milliards de dollars par an en prestations d'invalidité du RPC et la prestation fiscale pour enfants et le crédit pour la TPS représentent huit milliards de dollars par année.

10. **Il reste encore de vieilles questions à régler.** Je fais des observations dans ce chapitre sur un certain nombre de questions qui sont toujours pertinentes :

- La nécessité de renforcer le régime fiscal continue d'être manifeste d'après les vérifications de l'année écoulée. Les parlementaires de tous les partis nous encouragent à continuer de nous concentrer sur le rendement du régime fiscal.
- Mon personnel continue de constater des problèmes importants de gestion et de contrôle financiers. Nous continuons de constater l'absence de principes de saine gestion des projets et de gestion efficace du risque dans des projets de technologie de l'information mettant en jeu des milliards de dollars de dépenses. La gestion du risque d'un seul des quatre grands systèmes que nous avons vérifiés cette année était efficace. Les efforts déployés par le Secrétariat du Conseil du Trésor pour régler ces problèmes sont encourageants.
- Un groupe d'étude composé de sous-ministres, qui s'est penché sur les valeurs et l'éthique dans l'administration fédérale, préconise bon nombre de mesures que nous avions recommandées dans notre étude sur l'éthique en 1995 — un pas vers le renforcement de la base d'éthique dans l'administration fédérale.

- Pour que la décentralisation administrative réussisse, il faut que les liens relationnels entre le Secrétariat du Conseil du Trésor et les autres organisations gouvernementales soient clairement énoncés.
- Outre l'accent mis sur une meilleure coordination des politiques, il faut une meilleure coordination des activités, comme l'illustre l'absence de coordination entre les partenaires du système judiciaire pénal canadien que nous avons constatée lors de notre vérification du Service correctionnel Canada — La réinsertion sociale des délinquants.
- Le continue de croire que les structures et les règles qui régissent les fonctionnaires doivent être simplifiées. Certaines mesures encourageantes ont été prises, mais notre vérification, cette année, du système de classification montre qu'il reste encore beaucoup à faire.

Questions d'une importance particulière — 1996



Points saillants

1. Chaque année, je traite dans le présent chapitre des questions qui, à mon avis, revêtent une importance particulière. Le gouvernement fédéral connaît aujourd'hui des changements considérables. À l'heure de ces changements, de nouvelles questions apparaissent et d'autres plus anciennes prennent une importance nouvelle.

2. Améliorer la reddition de comptes. Cette année, ma plus grande préoccupation est la reddition de comptes. Dans mon premier rapport en qualité de vérificateur général, en 1991, je considérais que c'était l'un des défis les plus importants que le gouvernement avait à relever. Les changements apportés au mode de fonctionnement du gouvernement rendent cette question encore plus pressante. Assurer la reddition de comptes devient particulièrement difficile avec le nombre croissant de programmes conjoints et les nouveaux modes de prestation de service adoptés — comme l'illustrent les problèmes constatés lors de notre vérification du programme Travaux d'infrastructure Canada. Les parties doivent s'entendre sur les éléments essentiels à une bonne reddition de comptes, et ces éléments doivent refléter l'évolution de l'administration fédérale, comme le recours aux partenariats et aux programmes conjoints.

3. Donner au Parlement et aux Canadiens de l'information de meilleure qualité. Fournir de l'information de meilleure qualité au Parlement et aux Canadiens, particulièrement de l'information sur ce qu'on a réalisé avec les fonds publics, est un des éléments essentiels à une bonne reddition de comptes. Dans le passé, je me suis souvent senti frustré par l'inaction à cet égard. Le problème n'est pas technique. C'est une question de volonté — dans la plupart des cas, on peut fort bien réunir de l'information sur les résultats susceptible d'améliorer la compréhension du rendement du programme. Les travaux en cours pour renouveler l'information communiquée au Parlement m'amènent à manifester un optimisme prudent sur les chances de progrès.

4. Malheureusement, l'amélioration de l'information communiquée sur les résultats a rarement été jugée prioritaire. On craint parfois que la communication d'information sur les résultats ne fournisse des munitions aux critiques. Pour progresser réellement, les organisations doivent considérer plutôt l'information communiquée au public comme un outil valable. En période de restrictions et de scepticisme au sujet du gouvernement, il est impératif de pouvoir prouver clairement et de façon convaincante ses résultats. Même quand les résultats sont négatifs, une organisation avisée reconnaît publiquement ses lacunes et explique les mesures prises pour les combler.

5. Certaines administrations ont adopté des lois qui obligent le gouvernement à rendre compte de tous les aspects de son rendement. C'est une idée qui mérite réflexion.

6. Le gouvernement a adopté bon nombre de nos recommandations visant l'amélioration de l'information sur sa situation financière, mais ses efforts ne sont pas encore complets. Je crois que la prochaine étape importante pour le gouvernement consisterait à améliorer son rapport annuel en intégrant les indicateurs proposés par l'Institut Canadien des Comptables Agréés.

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Le gouvernement évolue, la reddition de comptes doit elle aussi évoluer

Pourquoi la reddition de comptes est-elle importante?

Ce qu'une reddition de comptes moderne suppose

Le défi de la reddition de comptes posé par les programmes conjoints : les leçons tirées du programme Travaux d'infrastructure et du mode de financement des Premières nations

Améliorer la reddition de comptes dans la pratique

Questions d'une importance particulière – 1996

Avant-propos (suite)

Outre le présent volume et ceux que j'ai soumis au Parlement en mai 1996 (12 chapitres) et en septembre 1996 (8 chapitres), mon Bureau a fourni :

- une opinion et des observations sur les états financiers du gouvernement du Canada;
- un rapport du vérificateur et des observations sur l'état exigé en vertu de la *Loi limitant les dépenses publiques*;
- un rapport du vérificateur et des observations sur l'état des opérations du Compte de service et de réduction de la dette;
- 72 rapports de vérification aux ministres des sociétés d'Etat énumérées dans l'annexe « E », aux sous-ministres des établissements publics fédéraux et aux conseils d'administration d'autres entités canadiennes;
- un rapport du vérificateur et des observations sur les états financiers du gouvernement du Territoire du Yukon;
- un rapport du vérificateur et des observations sur les états financiers du gouvernement des Territoires du Nord-Ouest;
- 15 rapports de vérification aux gouvernements territoriaux concernant leurs sociétés;
- trois rapports de vérification à la demande du ministre des Finances;
- trois rapports de vérification aux comités directeurs d'organisations internationales.

De plus, en 1996, mon Bureau a terminé sept examens spéciaux de sociétés d'Etat, énumérés dans l'annexe « E ».

Aux termes de l'article 11 de la *Loi sur le vérificateur général*, je peux réaliser des missions à la demande du gouverneur en conseil. Je n'ai reçu aucune demande à cet effet en 1996.

Rapport du vérificateur général du Canada à la Chambre des communes — Novembre 1996



Avant-propos

Je suis heureux de déposer le troisième volume de mon rapport de 1996. Cet avant-propos est suivi de « Questions d'une importance particulière — 1996 » et des points saillants qui sont tirés de tous les chapitres de cette année. Ce volume contient en outre 19 chapitres reliés séparément.

- La gestion de la dette fédérale
- Lieux contaminés fédéraux — L'information de gestion sur les coûts et les passifs environnementaux
- La gestion du matériel au gouvernement fédéral
- Les systèmes en développement — Obtenir des résultats
- Les activités de promotion des exportations du Canada
- Le programme Travaux d'infrastructure Canada — Les leçons apprises
- La communauté canadienne du renseignement — Le contrôle et la responsabilisation
- Agriculture et Agroalimentaire Canada — Le Programme des paiements de transition pour le grain de l'Ouest
- Agence canadienne de développement international
- Suivi échelonné du *Rapport du vérificateur général* de 1993 — Phase II
- Suivi du *Rapport du vérificateur général* de 1994 sur les contributions d'aide technique à l'Europe centrale et de l'Est et à l'ex-Union soviétique
- Service correctionnel Canada — La réinsertion sociale des délinquants
- Patrimoine canadien — Parcs Canada — La protection du patrimoine naturel du Canada
- Patrimoine canadien — Parcs Canada — La gestion des canaux historiques
- Affaires indiennes et du Nord Canada — Les modes de financement des Premières nations
- Défense nationale — La productivité des services de soutien
- Défense nationale — Suivi du *Rapport du vérificateur général* de 1994
- Revenu Canada et le ministère des Finances — La taxe sur les produits et services — Remboursement pour habitations neuves et « fourniture à soi-même »
- Revenu Canada — L'application de la *Loi de l'impôt sur le revenu* aux grandes sociétés
- Suivi des recommandations formulées dans des rapports antérieurs
- Autres observations de vérification

Avant-propos



À l'honorable Président de la Chambre des communes :

J'ai l'honneur de vous transmettre ci-joint mon rapport annuel de 1996 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(3) de la Loi sur le vérificateur général.

Le vérificateur général du Canada,

A handwritten signature in dark ink, appearing to read "L. Denis Desautels".

L. Denis Desautels, FCA

OTTAWA, le 26 novembre 1996

Le Rapport de novembre 1996 comporte 19 chapitres, dont le chapitre « Questions d'une importance particulière », ainsi qu'un Avant-propos et les Points saillants des chapitres des rapports de mai, de septembre et de novembre 1996. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.

Rapport du
Vérificateur général
du Canada
à la Chambre des communes

Questions d'une importance particulière – 1996
Avant-propos et Points saillants

Novembre 1996

Novembre 1996

**Rapport du
Vérificateur général
du Canada
à la Chambre des communes**
Questions d'une importance particulière – 1996
Avant-propos et Points saillants

CAI
AG
- ASS

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 21
Federal Debt Management

November 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

**Chapter 21
Federal Debt Management**



November 1996

This November 1996 Report comprises 19 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

Chapter 21

Federal Debt Management

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Federal Debt Management

Assistant Auditor General: R. C. Thompson

Responsible Auditor: Brian Pearce

Main Points

21.1 As at 31 March 1995, the Government of Canada reported total liabilities of \$583 billion, of which \$438 billion was borrowed on financial markets. Parliamentarians, and Canadians generally, have a right to expect that this massive debt is being managed professionally and with due regard to value for money. The study reported in this chapter initiates a multi-year examination by our Office of how well the government manages its debt.

21.2 Our study suggests that, in the context of a debt burden that continues to grow rapidly and is already extremely onerous, priority needs to be given to minimizing the risks associated with increases in interest rates. This requires an appropriate balance between short- and long-term debt instruments. Generally speaking, borrowing long-term provides stable but possibly higher interest costs over time; short-term rates may be lower but they are also more volatile.

21.3 We found that the federal government's approach to borrowing on financial markets is comparable with that of other major sovereign borrowers.

21.4 We also observed that the government is developing strengthened risk management policies and procedures to handle market activities that are becoming increasingly complex. As well, in 1992 the government began to evaluate more rigorously the extent to which debt management objectives are being met.

21.5 In future audits, we will monitor progress on these important initiatives and will select other significant debt management activities for more detailed examination.

Introduction

The importance of debt management

21.6 A significant and recurring theme of our work is the importance of sufficient and useful information on the outstanding government debt and annual deficits. The quality and availability of this information is essential for Parliament to be able to make the hard decisions that are needed to allocate scarce resources. Our current situation — a gross federal debt of \$583 billion at 31 March 1995, up from \$544 billion a year earlier — makes these decisions inevitable and underscores the importance of managing the debt wisely. Gross federal debt comprises all of the federal government's liabilities, which include current liabilities, the debt raised in the financial markets, and pension plan and other liabilities. Exhibit 21.1 shows the annual increase in the gross federal debt over the last several years and its composition.

21.7 The capacity of the economy to support federal debt depends, in part, on pressures imposed by the indebtedness of other levels of government, since all governments rely on the same taxpayer base. Exhibit 21.2 shows the ratio of our gross combined federal and provincial debt to our gross domestic product (GDP) and provides comparable information on the other G7 countries. Canada's combined debt-to-GDP ratio is one of the highest. (Gross domestic product is the

total value of goods and services produced in a country in a year.)

21.8 The past several years have seen major changes in financial markets. They have expanded enormously and become international in scope. New types of market instruments, or methods of borrowing, have been developed. Derivatives — contracts used to manage financial risks — have become increasingly sophisticated. Technological advances have also stimulated and facilitated the flow of capital among markets. Mobility of capital has given investors a wide choice of markets and types of securities in which to invest. These changes present both risks and opportunities in managing the costs of borrowing. Moreover, this has been a period of rising levels of federal debt and volatile interest rates, and one in which the federal government's credit ratings were lowered. All of these factors have an impact on the ability of debt managers to access capital markets and on the price they must pay to borrow.

The purpose of this study

21.9 The government's objectives for managing its market debt, as stated in the 1995 Debt Operations Report, are to minimize the cost of borrowing; to ensure that the borrowing cost remains relatively stable over time; to maintain a diverse investor base; and to continue the development of well-functioning Canadian financial markets.

Mobility of capital and new types of market instruments give investors a wide choice of markets and securities in which to invest.

	1992–1993	1993–1994	1994–1995
Current Liabilities	24,538	29,596	32,671
Market Debt (Issued in Canadian \$)	373,827	399,810	420,589
Market Debt (Issued in Foreign Currencies)	5,409	10,668	16,921
Total Market Debt	379,236	410,478	437,510
Non-Market Debt (Pension Plan Liabilities)	97,798	104,032	112,682
Total Debt 31 March	501,572	544,106	582,863

Exhibit 21.1

Composition of Canada's Debt
(*\$ millions*)

Source: Public Accounts of Canada 1995

21.10 The purpose of our study was to inform members of Parliament and others about how the government manages its market debt, and to provide our comments and observations on the various aspects of managing the debt.

21.11 The information presented in this chapter is based on a study of published data on federal debt management activities; information and insights gained by working with federal debt managers for a period of time; structured interviews with financial market experts and with debt management officials of certain other governments within Canada and abroad; and a comparison of federal debt management practices with those of other governments and countries. Further details on the study are presented at the end of the chapter, in **About the Study**.

Study Findings

Background Information

21.12 The cost of financing the debt. As the size of the federal debt has grown,

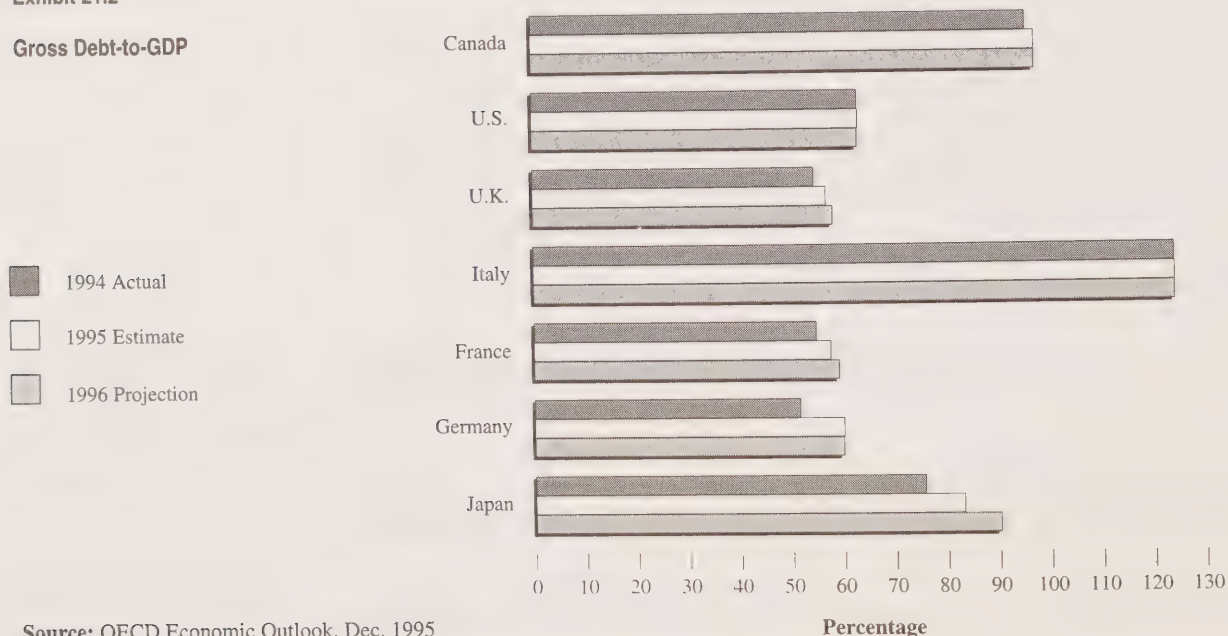
so has the cost of financing it. At the federal level, interest payments on the debt have claimed an increasing share of government revenues. In 1995, 34 cents of every dollar of revenue went to service the debt. At \$42 billion, interest charges were the government's largest single budgetary expenditure item for 1995, exceeding that year's deficit of \$37.5 billion. Exhibit 21.3 compares the annual deficit with the debt charges (interest costs) for the last several years.

21.13 Summary results. The summary results in Exhibit 21.4 show the deficit in fiscal 1995 at \$37.5 billion, down from \$42.0 billion in 1994. The net decline of \$4.5 billion was due to the interplay of the following factors:

- program spending declined by \$1.3 billion;
- revenues increased by \$7.3 billion; however,
- federal debt charges increased by \$4.1 billion, due primarily to the growth in outstanding debt and the increase in the

Exhibit 21.2

Gross Debt-to-GDP



Source: OECD Economic Outlook, Dec. 1995

average effective interest rate from 7.5 percent to 7.7 percent.

21.14 These figures demonstrate that, despite the government's commitment to improving its fiscal situation (as evidenced by an operating balance of \$4.5 billion for 1995), the results of its initiatives can be eliminated quickly in the marketplace, especially when interest rates rise. The government's own estimates show that a one percent rise in interest rates translates into \$1.3 billion in additional interest charges in the first year alone.

21.15 Gross borrowing requirement. Information published in the Budget tends to focus on the **new** borrowing requirements for each fiscal year, to the virtual exclusion of the **gross** market borrowing necessary to finance government operations and maturing debt. The amount of gross market borrowing (Exhibit 21.5) underlines our high dependency on financial markets and the necessity for interaction with them. Debt

managers had to borrow some \$494 billion in 1995 to finance government operations and maturing debt. While the Minister of Finance has indicated in Budget information that the deficit will decline, this will reduce the amount of new borrowing only — gross market borrowing will remain substantial. For the near term, the federal government will likely have to continue borrowing, on average, about \$9.5 billion every week. This figure represents borrowings in both the domestic and international markets. Its size is influenced by the fact that a high proportion of the government's debt is in short-term instruments, which have to be refinanced frequently. The predominant objective for debt managers is to obtain financing for the government that is both stable and low-cost.

21.16 Short-term and long-term debt instruments. Financial markets refer to debt instruments as short-term, meaning floating-rate debt, or long-term, usually meaning fixed-rate debt. Short-term debt is considered to be floating-rate debt

Even with a balanced budget, given the structure of the federal debt we still have to borrow approximately \$500 billion each year.



Improvements in federal and provincial fiscal situations combined with low inflation help to reduce interest rates.

because it matures or is repriced on a frequent basis, generally within one year, and needs to be refinanced at the interest rate prevailing in financial markets near the time of its maturity. The interest rate on short-term debt is therefore highly variable over time. Long-term debt, by comparison, has a longer term to maturity and generally a fixed rate of interest over that term. This protects the borrower against exposure to increases in interest rates for the term to maturity of the instrument, but does not permit the borrower to participate in any downturn in rates during that period. Long-term debt is also refinanced at prevailing interest rates on the day it comes due.

The Debt Management Environment

21.17 Various market experts advised us that the most important factors that could lead to a lowering of interest charges are credible fiscal and monetary policies and a well-functioning domestic financial market. The government's debt managers do not decide the government's fiscal plan or monetary policy, and they must work within the constraints imposed by the government's overall fiscal plan and the monetary operations of the Bank of Canada. However, the debt managers can and do work to improve the domestic

financial market, the prime source for the government's borrowing, and to help investors, credit rating agencies and other market participants understand significant developments in Canada's economic, political and fiscal situation. These aspects of their work are dealt with in more detail later in the chapter.

21.18 The federal government's actions to reduce the deficit have been welcomed by financial markets. The short-term, two-year rolling forecast of projected revenues and expenditures introduced in 1994 allows the government to demonstrate its commitment to the deficit reduction targets set out by the Minister of Finance in his annual Budget. Industry experts are encouraged by the fact that, to date, these targets have been met. Short-term targets, however, do not remove the need to consider carefully and determine the long-term economic and fiscal targets that the government wants to attain. In addition, the industry experts recognize the Bank of Canada's efforts on monetary policy and are pleased that the inflation targets have been achieved and that the monetary activities of the Bank of Canada have become more open and transparent. The improvements in fiscal performance realized to date, coupled with Canada's low inflation and parallel fiscal improvements by several of the provincial governments, have had a positive impact on the terms under which federal debt can be issued.

Who holds our debt

21.19 Except for Canada Savings Bonds, which generally can be held only by individuals who are Canadian residents, there are no restrictions on who can hold federal debt. The percentage of federal market debt held by non-residents has increased significantly over the past decade and is now estimated by the Department of Finance at 25 percent. The

Exhibit 21.4

Summary Fiscal Results

(\$ millions)

	1992–1993	1993–1994	1994–1995
Revenues	120,380	115,984	123,323
Program Expenditures	(122,576)	(120,014)	(118,739)
Operating Balance	(2,196)	(4,030)	4,584
Interest on Federal Debt	(38,825)	(37,982)	(42,046)
Deficit	(41,021)	(42,012)	(37,462)

Source: Public Accounts of Canada 1995

bulk of this percentage represents Canadian dollar debt issued in the domestic market and acquired by non-residents. While some see this level of foreign-held debt as cause for concern, in fact the achievement of a diverse investor base is one of the objectives of the debt managers.

21.20 The effects of non-resident investment. Some industry observers believe that non-resident investment exposes Canada to the risk of sell-off should investors lose confidence in Canada's economic outlook or in the relative value of its currency. The thinking is that any time foreign investors' perception of Canada's economic and fiscal status alters, they may choose to sell their holdings of Government of Canada debt for other instruments, potentially driving up the interest rate the government must pay on new issues of debt to attract investors. This view has been reinforced in recent years by the emergence of large institutional funds abroad (known as hedge funds), which are able to move vast sums into and out of bond markets as circumstances change. Domestic investors are seen as less likely to sell Canadian investments under adverse economic conditions to buy foreign issues. This is due to regulatory limits on offshore investment for pension purposes and the fact that they may have purchased the

Canadian securities for investment purposes to offset and match Canadian dollar liabilities in their respective portfolios.

21.21 Most market experts, however, believe that Canadian investors will behave in much the same way as foreign investors when faced with the same circumstances. Nonetheless, the benefit of a diversified global investor base is that individual investors across different markets do not all think and react alike.

21.22 The reality is that when the demand for funds exceeds the available supply in the domestic financial market of a country, as has happened in Canada to a great extent over the past decade, foreign investors are relied on to supply the balance. The only way for a country as a whole to reduce its reliance on foreign investors is to increase domestic savings. As long as the Canadian balance of payments remains in deficit (that is, our expenditures exceed our income), any reductions in the amount of federal government debt held by non-residents will be achieved only by an increase in the non-resident holdings of private sector debt and that of other governments. From the perspective of federal debt management, however, with a foreign investor base that tends to be largely institutional and increasingly concentrated, further diversification is

A diverse investor base helps minimize the risk of sell-off of federal debt.

	1992-1993	1993-1994	1994-1995
Deficit	41,021	42,012	37,462
Expenditures Not Requiring Current Funding ¹	(11,246)	(13,801)	(12,146)
Increase (Decrease) in Foreign Currency Reserves	(5,748)	2,128	1,425
Other Requirements of Funds	6,825	903	290
New Market Borrowing Requirements	30,852	31,242	27,031
Maturing Debt Refinancing	399,125	431,705	467,312
Gross Market Borrowing	429,977	462,947	494,343

¹ Principally relating to employee pension plans

Exhibit 21.5

Overview of Gross Market Borrowing
(*\$ millions*)

Source: Public Accounts of Canada 1995

being pursued through initiatives aimed at domestic retail investors.

Who manages the debt

21.23 Our debt managers, the Financial Markets Division of the Department of Finance, provide analysis and develop policies and recommendations for the federal government's borrowing program, including the borrowings for official reserve purposes, and for its risk management framework. The Division also develops guidelines for Crown corporations on market borrowings and risk management policies. The Division works closely with the Bank of Canada, the government's fiscal agent, on all aspects of the debt program. An overview of the key players in the financial markets is presented in Exhibits 21.6 and 21.7. The Bank is responsible for the administrative aspects of debt management, such as conducting auctions of government debt, issuing the debt instruments, making interest and settlement payments and monitoring and advising on market activities as well as risk management activities.

21.24 Together, the Department of Finance and the Bank of Canada interact with domestic and international financial markets, brokers, dealers, investment bankers, credit rating agencies, and other market participants. Constant communication with these groups promotes an efficient and well-functioning market for government debt.

21.25 Major operating decisions and policy recommendations on debt management represent a consensus between the Bank and the Department, for approval by the Minister of Finance. The Minister of Finance has the ultimate responsibility and authority for all aspects of debt management, including approving

the schedule for issuing debt, maturity dates, interest rates payable (up to a prescribed maximum rate) and the terms and conditions of the sale of debt issues.

How the government borrows

21.26 Our study shows that most heavily indebted sovereign nations have found, because of their large borrowing requirements, that the best way to minimize borrowing costs and ensure a steady supply of funds is to borrow in their domestic markets.

21.27 Canada borrows in foreign currency markets as well, but only to the extent that it requires other currencies to maintain its foreign reserves, used from time to time to maintain orderly markets for the Canadian dollar.

21.28 The overall long-term objective of debt management for domestic borrowing is to obtain stable, low-cost financing. To achieve this objective, the debt managers work toward developing a well-functioning domestic market. For foreign borrowing, though, stability of interest costs is not a major issue, since the foreign currencies borrowed are invested in income-producing investments (Canada's foreign currency reserves) until needed. The primary objective for foreign borrowing is to minimize carrying costs (the difference between interest paid on the borrowed funds and the interest income produced by the assets in which the funds are invested), and to diversify the maturity structure and sources of funds. The method of borrowing also differs depending on whether the targeted market is domestic or foreign.

21.29 Domestic borrowing. Key attributes of a well-functioning domestic market include transparency, efficiency and liquidity. Each of these is a particular area of focus for the debt managers.

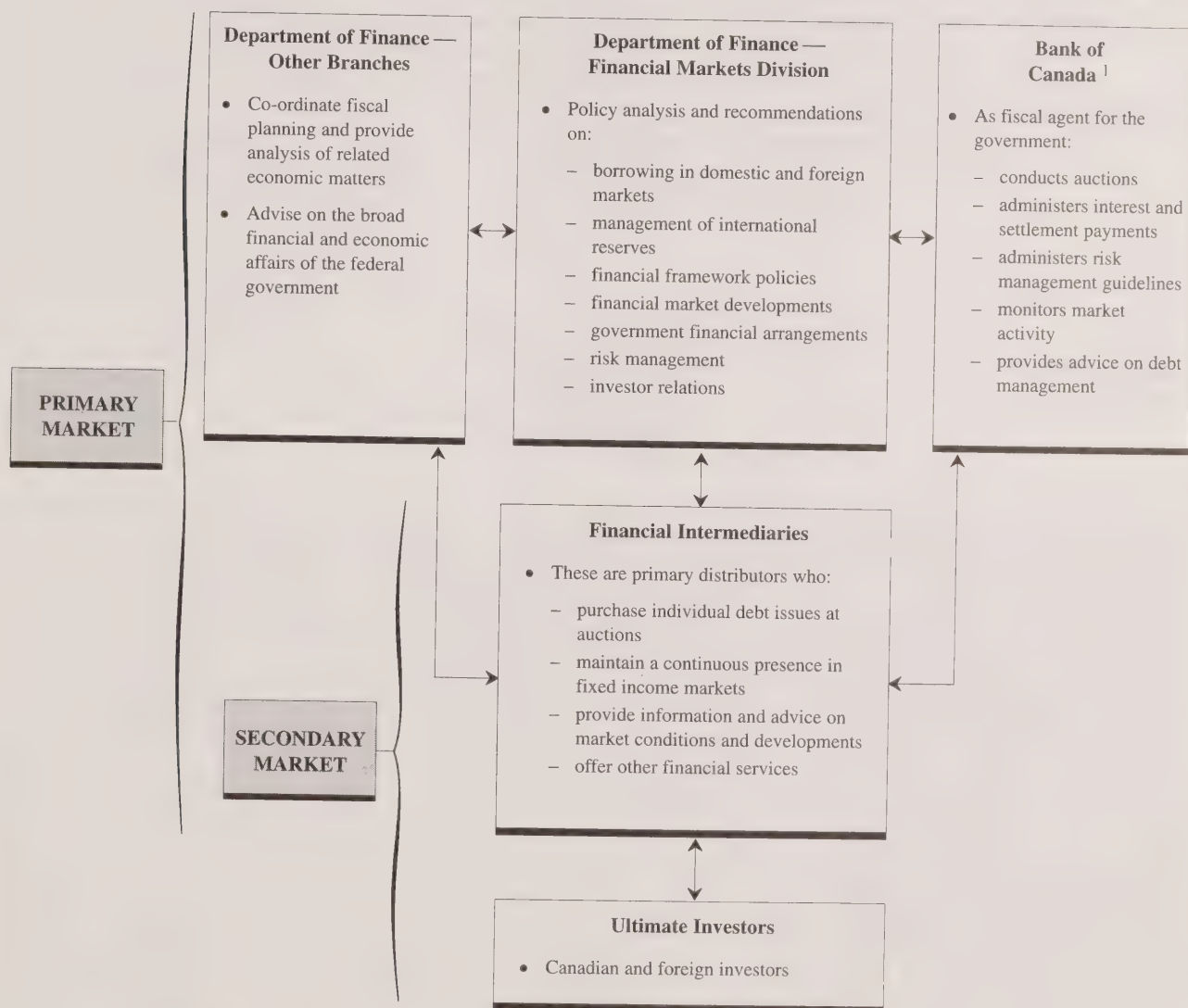
Most major sovereign nations borrow domestically to reduce funding costs.

21.30 Because of the size of the government's gross borrowing requirement, the debt managers go to the domestic market on a regular basis with the dates of debt auctions and the funding requirements published in advance (an explanation of auctions can be found on page 21-15). This is referred to as the "transparency" of the auction calendar. One result of promoting transparency in

the auction calendar is that the timing of the government's borrowings cannot be adjusted to take advantage of lower interest rates or to take into account the debt managers' assessments of where rates are heading. The Government of Canada, therefore, is committed to borrowing at interest rates prevailing at the time of auction — that is, to being "interest-rate neutral" in its borrowing approach.

Exhibit 21.6

Key Players in Debt Management



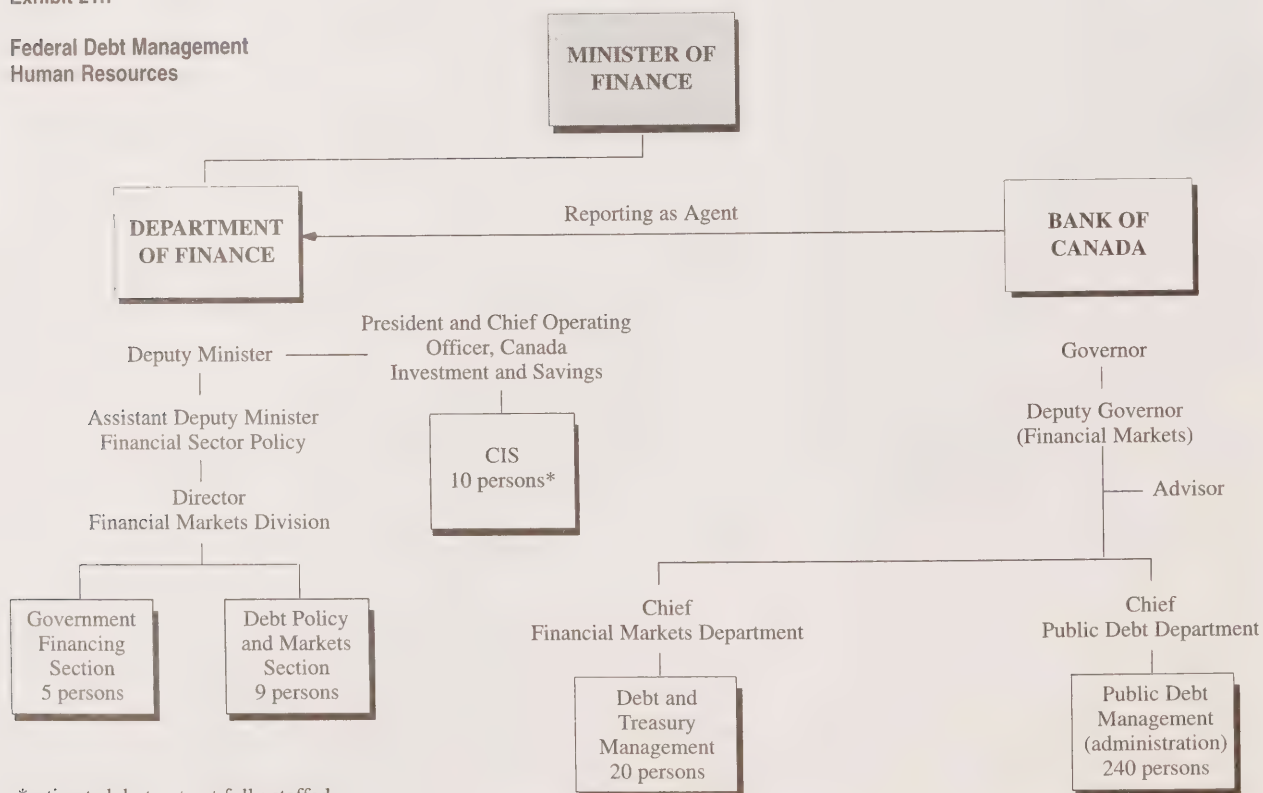
¹ Other responsibilities of the Bank of Canada are independent of debt management and are not discussed in this chapter.

However, advance announcements increase the market's certainty about future debt operations, which in turn promotes market efficiency and, ultimately, lower interest costs. Announcements in advance of the auction dates allow the primary distributors time to arrange for the sale and distribution of the debt instruments to be auctioned. The government therefore seeks to minimize borrowing costs by working with market participants to develop and improve the efficiency of the domestic market. This approach is followed by all the G7 nations, who, like Canada, focus their efforts on supporting and developing the domestic market. A well-functioning market facilitates the buying and selling of securities and results in overall lowered borrowing costs.

21.31 Apart from the overall economic benefit of a deep and liquid domestic financial market (a "deep" market refers to the volumes of securities traded; "liquid" to the ease with which investors can trade securities), there are other advantages to the federal government stemming from its domestic borrowing approach. These advantages include the following:

- By being able to satisfy substantially all of its borrowing needs domestically in Canadian dollars, the government avoids exposure to the adverse currency fluctuations that are normally associated with borrowing in foreign currencies.
- By offering products with varying maturities up to 30 years, the federal government provides a benchmark against

Exhibit 21.7

Federal Debt Management
Human Resources

*estimated, but not yet fully staffed

which other market participants can evaluate investors' reactions to and acceptance of the securities they want to sell and the interest rates offered. This can lead to improved efficiency and ease of market transactions and reduced borrowing costs, to the benefit of all participants.

21.32 The purchase of Canadian government securities by primary distributors directly through the auction process forms what is called the primary market for these instruments. The secondary market is composed of all trading in government securities that takes place in the period between the initial issue of the instrument and its date of maturity. Primary distributors who buy securities at auctions sell them to their clients — that is, to the ultimate investors. Depending on the market values of the various instruments, as well as specific investment objectives, investors trade at will in the secondary market for government securities.

21.33 Although it is the primary market that generates funds for the government's

operations, the secondary markets play a very important role in the functioning of the primary market for the sale of Canada's debt instruments.

21.34 To assist the government's debt managers in monitoring and evaluating the secondary market, the major primary distributors are required to provide the Bank of Canada with assessments of market conditions and weekly statistical reports on trade volumes. Large trading volumes (buying and selling) in the secondary market ensure that prices obtained by the government in the primary market (the interest paid on bonds, and the discounts given on Treasury bills) will be competitive, thus reducing the overall costs of servicing the debt. Large trading volumes are also indicators of the breadth of the base of investors holding the securities.

21.35 Most industry experts we consulted support these approaches and initiatives. They confirm that, given the size of the debt and the frequency of borrowing necessary to satisfy the annual gross borrowing requirement, there is little

Given the size of the debt, and the annual gross borrowing requirement, the government has little opportunity to deviate from being an interest-rate-neutral borrower.

THE AUCTION PROCESS

The auction process is the primary method the Government of Canada uses to raise funds in the domestic market. This method has now been adopted for the sale of all Canadian dollar debt instruments except Canada Savings Bonds, which continue to be sold directly to the public at a fixed price.

Under the auction system, issues of government debt instruments are sold by competitive public tender to a group of financial intermediaries known as primary distributors. The Bank of Canada, as fiscal agent, conducts the auctions. The instruments sold at auction are:

- marketable bonds, with terms ranging from 2 to 30 years. These include fixed-rate bonds and "real return bonds", which offer a return linked to changes in the Consumer Price Index;
- Treasury bills, issued for terms of 3, 6 and 12 months; and
- cash management bills (1 day to 3 months).

Neither the government nor the Bank of Canada deals directly with the public in the distribution of domestic marketable securities. The primary distributors are investment dealers and certain deposit-taking institutions based in the

major financial centres of Canada. To be eligible as a primary distributor, a firm must meet certain reporting, performance, and distribution criteria for participation at auctions. Any addition to or deletion from the list of primary distributors is made only after a sustained evaluation by the government of the firm's performance over an extended period of time.

The debt managers consider Canada Savings Bonds and Treasury bills as floating-rate debt, investments in marketable bonds as fixed-rate debt unless they mature within one year, and real return bonds as 50 percent fixed and 50 percent floating.

To achieve a more stable and prudent debt structure requires greater use of long-term fixed-rate instruments.

opportunity for the debt managers to deviate from being a transparent, interest-rate-neutral borrower. They must therefore concentrate on developing the domestic financial market. Some experts, however, have suggested that Canada issue Canadian dollar debt directly in global markets.

21.36 Borrowing in foreign currency markets. The government's current foreign currency debt is denominated exclusively in U.S. dollars. The gross market borrowing in foreign currencies of \$44 billion for 1994–95, including the roll-over of short-term instruments, was less than 10 percent of the government's total borrowing. Total federal debt in foreign currencies at 31 March 1995 was \$16.9 billion, or 3.8 percent of total market debt (Exhibit 21.8a). For this component of the debt, the debt managers monitor the international markets and attempt to take advantage of interest rate and currency opportunities there. Because of the much smaller borrowing requirement, the debt managers have the flexibility to issue debt when cost-saving opportunities arise. The debt managers also do not have to concern themselves with the transparency of their foreign currency borrowing, due again to the smaller borrowing requirements and the huge size of the international markets.

21.37 Unlike the debt issued in the domestic market, foreign currency debt (Canada bills, bonds and medium-term notes) is not auctioned but is sold through a group of investment dealers, acting as underwriters, for subsequent distribution and sale to investors. The underwriting team is a key component of the success of a foreign currency bond issue and provides advice and assistance on the amount and timing of the issue, as dictated by the complexity of the transaction.

21.38 Exhibits 21.8a and 21.8b show the composition and structure of the Government of Canada's total domestic and international market debt.

21.39 Exhibit 21.9 highlights the government's 1995 borrowing activities to meet requirements for new debt and the refinancing of maturing debt. It outlines the frequency, amounts and types of debt instruments used to raise the \$494 billion of gross market borrowing needed for that year.

Development of the Debt Management Strategy

21.40 Prior to the beginning of each fiscal year, the debt managers perform an in-depth review of the government's debt management strategy. This strategy sets out the long-term and annual goals and objectives for debt management and evaluates the results of the previous year. As summarized earlier, the overall objectives are to obtain stable, low-cost financing through access to a diverse investor base and to develop liquid and well-functioning Canadian financial markets.

21.41 The government's review of debt management strategy includes an evaluation of the following issues:

- the optimum fixed-to-floating ratio of its debt;
- the types of market instruments to be used and their terms to maturity;
- development of Canadian financial markets; and
- communication with investors, rating agencies and other market participants.

21.42 As a result of the 1996–97 strategy review, the government has announced the following specific goals:

- to rebalance the stock of debt toward more long-term fixed-rate instruments to

achieve a more stable and prudent debt structure;

- to develop innovative financing instruments and improve the liquidity of the Canadian fixed-income market, thus contributing to lower borrowing costs;
- to develop a retail debt program to stop the decline in the retail investor base (small investors and individuals); and
- to keep investors and credit rating agencies informed on a timely basis about developments in Canada's political,

economic, fiscal and debt management situations.

21.43 The following sections provide more detailed descriptions of the key components of the current federal debt strategy and expand on the actual methods used in the federal government's borrowing approach.

Rebalancing the stock of debt

21.44 Stability of interest costs. The federal government's debt strategy aims to provide a degree of stability and

Exhibit 21.8a

Composition of Total Domestic and International Market Debt

(\$ millions)

Instruments	Stock as of 31 March 1995	New Issues in 1994-1995		
		Gross Issues	Maturing Securities	Net Issues
Domestic				
Fixed-Rate Bonds	220,965	41,600	21,208	20,392
Real Return Bonds	4,714	1,895	0	1,895
Treasury Bills ¹	164,450	401,100	402,650	(1,550)
Canada Savings Bonds	30,460	5,953	5,911	42
Total Domestic	420,589	450,548	429,769	20,779
International				
Fixed-Rate Bonds	7,875	2,855	0	2,855
Canada Bills	9,046	40,940	37,543	3,397
Total International	16,921	43,795	37,543	6,252
Total Market Debt	437,510	494,343	467,312	27,031

¹ Includes the gross amount of issues and maturities of the 3, 6 and 12-month instruments

Source: Public Accounts of Canada 1995, Department of Finance

Exhibit 21.8b

Structure of Total Domestic and International Market Debt

	1992-1993	1993-1994	1994-1995
Fixed/Floating Ratio	50/50	51/49	55/45
Average Term to Maturity (Years:Months)	4:4	4:6	4:10

Canada's debt structure is sensitive to increases in interest rates.

predictability in debt charges from year to year, for fiscal planning purposes. The government needs stability in interest costs to help ensure that its fiscal plans can be realized. We have already discussed how increases in interest rates, coupled with our increasing debt load, can wipe out the results of fiscal restraint actions. The federal government's continually increasing debt (Exhibit 21.1), along with the strategy of heavy reliance on short-term, floating-rate debt instruments throughout the 1980s, have resulted in a stock of debt that is very sensitive to interest rate fluctuations.

21.45 The debt managers have been working since 1989 on rebalancing the stock of debt toward a more stable financial structure through increased use

of fixed-rate, longer-term debt instruments. But this is a slow process and will require a few years to complete, since it is not possible to shift billions of dollars quickly among instruments.

21.46 Determining the fixed-to-floating ratio of total interest-bearing debt is one of the key decisions in setting the debt strategy. This ratio is a primary indicator of the government's exposure to interest rate volatility (Exhibit 21.8b). The lower the ratio, the higher the impact of changes in interest rates on the stock of debt to be refinanced. Of course, the government stands to benefit should there be a decline in interest rates. Thus, debt managers must exercise judgment in evaluating the risks and opportunities that they believe to be the most appropriate given the size of the

Exhibit 21.9

Canada's Monthly Debt Issues by Type of Instrument – 1994–1995 Fiscal Year Gross Issues of Marketable Debt

(CAN \$ millions)

Month 1994–1995	Canadian Dollar Bond Issues	Real Return Bonds	Treasury Bills (Issued in CAN\$)	Foreign Currency Bonds	Canada Bills (Issued in US\$)	Total New Issues 1994–1995
April	3,900		32,700		3,887	
May	3,200		30,450		3,724	
June	4,700	400	40,050		4,501	
July	4,000		31,500	2,798	2,928	
August	3,400		27,650		2,697	
September	4,900	500	37,400		2,239	
October	2,300		34,150		2,498	
November	3,300		25,700		1,062	
December	4,300	500	36,300		3,896	
January			30,250		5,948	
February	2,900	350	32,400		3,291	
March	4,700		42,550		4,269	
		145 ¹		57 ²		
Total	41,600	1,895	401,100	2,855	40,940	488,390
Canada Savings Bonds						5,953
						494,343

¹ Consumer Price Index adjustment for end of period

² Foreign exchange adjustment

Source: Public Accounts of Canada 1995, Debt Operations Report 1995

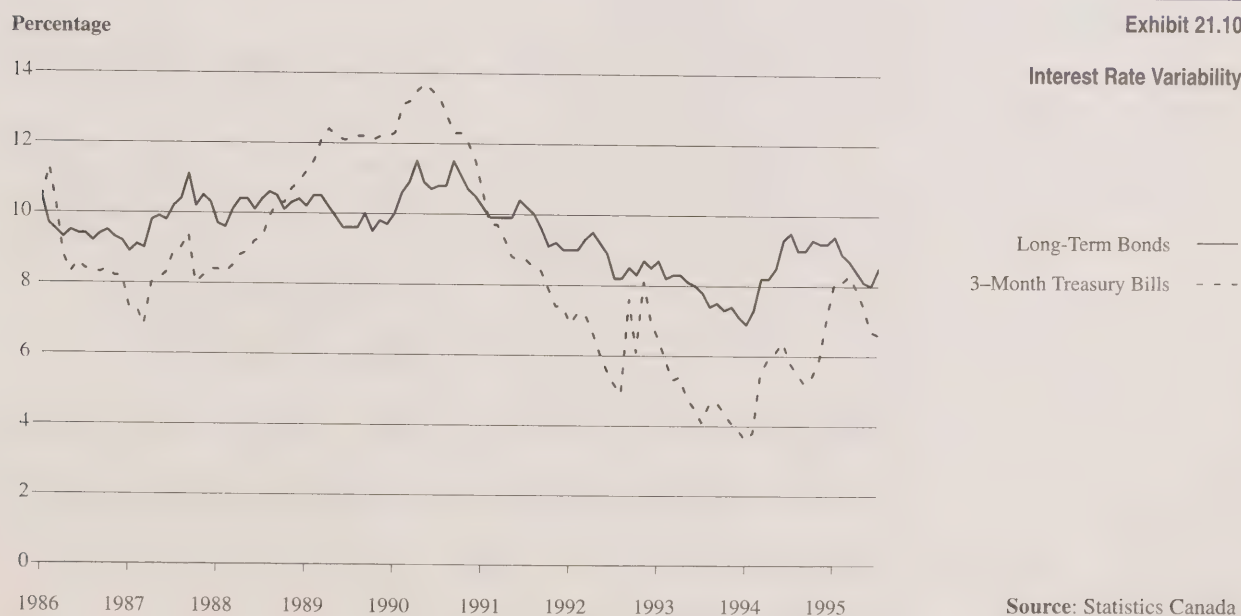
debt, the amount of maturing debt and the potential market environment. The goal is to establish and then maintain a prudent balance in the debt structure: one that provides the required stability and certainty of interest costs through use of longer-term fixed-rate debt, while permitting access to the typically lower but more variable interest rate environment associated with short-term floating-rate debt. Exhibit 21.10 shows the variability observed in interest rates on the federal government debt, both for short-term (floating) and long-term (fixed) debt instruments over the last 10 years.

21.47 Given the size of the government's gross borrowing requirement and the vulnerability of its financial position to even the smallest increase in interest rates, the debt managers believe that to obtain a more balanced debt structure, and to reduce the risks associated with possible interest rate volatility, they must make greater use of fixed-rate instruments in the raising of funds.

21.48 Scenario analyses. The identification of a prudent fixed-to-floating ratio is supported by the results of analyses of a series of modelled scenarios (future forecasts). The scenarios are based on evaluations of potential market risks and opportunities and the likelihood of occurrence of given interest rates and political and other events. The assumptions are applied to various fixed- and floating-rate maturity structures to determine the resulting interest costs. The results of each scenario are then evaluated to determine the desired debt structure.

21.49 Interest rate scenarios are based on a combination of prior experience and projections; event scenarios are based on assumptions about fiscal, political and economic factors, including the continued availability of funds from federal employee pension plans.

21.50 The debt managers use computer software to generate the figures for the various interest rate and event scenarios. This software takes time to run and is limited in its capacity to perform rigorous



Most G7 nations have issued more long-term debt than we have.

analyses. While the existing process produces sufficient support for decision making, modern debt management software is available that makes possible more frequent and potentially more robust analyses of past and proposed debt strategies. Other sovereign governments are using this software in formulating their debt strategy and evaluating the results obtained, or are in the process of evaluating the potential benefits of its use.

21.51 Fixed-to-floating decision.

Arriving at the fixed-to-floating ratio decision is a complex process and requires the exercise of considerable judgment by the debt managers in determining the assumptions, evaluating the results and recommending a prudent ratio. The strategy recommendations put forward to the Minister reflect the debt managers' assessment of the likelihood of occurrence of various scenarios, and their views on the direction of the financial markets, particularly interest rates, including an assessment of the degree of risk and uncertainty that is reasonable for the government to assume.

21.52 Based on their most recent analyses and evaluations of risks and exposures to interest rate volatility and other uncertainties, the debt managers have recommended continuing the strategy originally implemented in 1989 to increase the proportion of long-term fixed-rate debt in the government's debt structure. The intent is to increase the fixed-rate portion from 55 percent (at 31 March 1995) to 65 percent.

21.53 Average term to maturity.

Another measure of exposure to interest rate volatility is the "average term to maturity" (ATM) of the instruments comprising the debt. The ATM is an aggregate measure of the maturities of the various debt instruments used and their

relative proportion of the total debt, and is an index of exposure to fluctuations in interest rates. The higher the ATM — the higher the proportion of long-term maturities included in the program — the more secure the debt stock is from adverse effects of upward fluctuations in interest rates.

21.54 Another benefit of increasing the fixed-rate portion of the debt is that the average term-to-maturity of the debt will be extended, further reducing the overall sensitivity to interest rate changes. At four years and ten months, the average term to maturity of the federal government's debt is close to those of other countries in the Organization for Economic Co-operation and Development (OECD); however, this masks the fact that the proportion of floating-rate debt is higher than average.

21.55 Exhibit 21.11 shows the ATM of Canada's debt over the last several years. The debt managers can gradually adjust the ATM by changing the composition and maturities of the instruments used to raise funds, and in recent years Canada's ATM has been extended with the issuance of 30-year bonds.

21.56 Our observations. With a debt the size of Canada's, it is generally considered prudent to have the greater portion held in long-term instruments. The decision to rebalance the stock of debt will bring Canada more in line with other G7 nations, most of whom have issued considerably higher percentages of long-term debt instruments to achieve more stability in debt costs.

21.57 There may be merit in evaluating other analytical options, including modern debt management software, to facilitate more frequent and potentially more robust analyses of past and proposed debt strategies.

Developing Canadian financial markets

21.58 The debt management strategy places significant emphasis on initiatives to improve the functioning of Canadian financial markets, in order to reduce interest costs. Some of the major initiatives over the years are the move to an all-auction system for issuing government securities to primary distributors; the introduction of an electronic (paperless) system to record sales and purchases of securities at the Canadian Depository for Securities Limited (CDS); the removal of the requirement for withholding taxes on cross-border agreements involving the sale and repurchase of securities (repos); and the development and introduction of market instruments such as the real return bond (RRB) in the early 1990s and Government of Canada bond futures in 1995, traded on the Montreal Exchange. (A real return bond pays interest at a specified annual rate, plus an additional amount based on increases in the Consumer Price Index to compensate for inflation; a bond future is a contract to buy or sell a bond at the agreed contract

price on a specified future date, thus locking in a certain rate of return.)

21.59 In their attempts to increase market liquidity (the ability to easily buy or sell a reasonable amount of debt instruments at a reasonable price) and to attract investors to buy government debt, the debt managers have concentrated on building what are termed target “benchmark” sizes into the bond program, ranging from \$6 billion to \$9 billion each. This is a common practice among sovereign nations, particularly the large G7 borrowers.

21.60 A benchmark bond is a specific issue outstanding within each class of maturities, and is considered by the market to be the standard against which all other bonds issued in that class are evaluated. The secondary market prices of the five different Canada benchmarks (terms of 2, 3, 5, 10 and 30 years) are reported on all the widely distributed financial databases, and are used to gauge general market movement and performance. For example, provincial and corporate debt issuers will look to the federal government’s benchmarks to

Canada’s benchmark bonds set the standard in the domestic financial market.

Months to Maturity

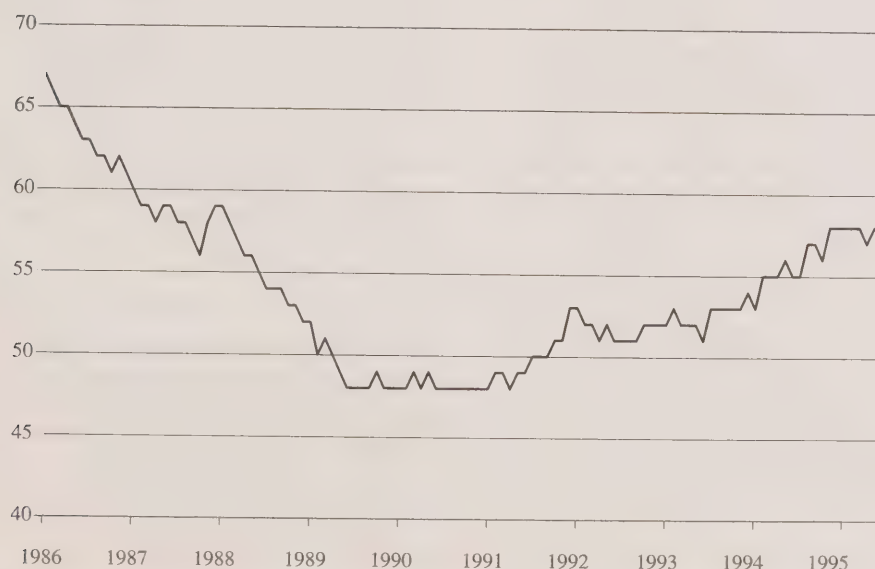


Exhibit 21.11

Average Term to Maturity of Federal Government Debt

(excluding Canada Savings Bonds)

Source: Statistics Canada

decide how well the market is likely to price their issues of similar instruments and maturities.

21.61 An important aspect of developing large benchmark bond issues is the management of the various maturity dates to avoid multiple benchmark maturities on the same day. The need to refinance several billion dollars of market debt on one day could affect the availability of low-cost financing by placing upward pressure on interest rates. Effective cash management will be required to mitigate this concern.

21.62 The government's debt managers also monitor the trading spreads of their securities (the difference between the dealers' buying and selling prices in the secondary market) and trading volumes (a measure of their liquidity) to gauge market efficiency.

21.63 Increasing the transparency of the auction calendar is another key element in the government's debt strategy, designed to attract investors and promote a well-functioning market. Announcements in advance (the transparency of the auction calendar) and the setting of targets for benchmark bond sizes increase the market's certainty about future debt operations, which promotes market efficiency, increases liquidity and, ultimately, lowers interest costs. The quarterly auction schedule now announces the dates of all auctions and the maturities of instruments to be offered. It is noteworthy that the U.S. government already uses these features in marketing its debt. The U.S. government debt market is recognized as the largest and most efficient in the world. The U.K. government has also recently increased the transparency of its auction calendar.

21.64 However, to take into account market conditions and changing financial

requirements, the Canadian government maintains flexibility in the size of the auctions and does not announce the actual amount it intends to borrow until about a week before the auction date.

21.65 In offering products with varying maturities, debt managers support the development of the Canadian financial markets by providing a range of investment opportunities to meet short-, medium- and long-term requirements of investors. The three-year bond was recently reintroduced in response to investor demand.

21.66 Our observation. The increased transparency of the government's auction calendar and the development of large benchmark sizes in the bond program are regarded by market specialists as effective means of promoting market efficiency and improving liquidity, thereby reducing costs.

Developing a retail debt program

21.67 A major initiative is the recent establishment of Canada Investment and Savings (formerly known as the Canada Retail Debt Agency) within the Department of Finance. This new agency will be responsible for selling the government's debt to small investors and individual Canadians. We would expect that in setting up this agency, sufficient consideration will be given to the cost effectiveness of this proposed distribution method in comparison with existing distribution methods. We will examine this issue in a future audit.

21.68 To ensure a broad domestic base of investors for their securities, governments in other countries have also developed programs to sell their debt instruments to the general public. However, such holdings often do not constitute a major part of the debt in those countries; nor do they in Canada, with

individuals holding approximately \$92 billion of the market debt according to Department of Finance statistics (\$52 billion directly and the rest indirectly, for example, through mutual funds). The stated objective of the agency is to provide individual Canadians with better access to federal debt securities, and thereby increase their holdings of these securities. Primary distributors will continue to acquire debt at regular auctions for sale to their clients.

21.69 Our observation. The full impact of Canada Investment and Savings will not be apparent for several years. In the meantime, however, we would expect the Department of Finance to provide sufficient information to Parliament on the results of the agency's activities and on the cost effectiveness of the strategies employed to achieve its stated objectives.

Investor relations

21.70 Competitiveness in financial markets at home and abroad determines the interest rates that the Government of Canada has to pay to attract investors. Investors evaluate the opportunities and risks associated with investment in the government's securities against those offered by other sovereign nations or private corporations. Investors normally consider the credit rating, the strength of the economy, the rate of inflation and, above all, their perception of the government's fiscal performance and currency outlook in comparison with other investment opportunities.

21.71 The importance of a credit rating. The government's credit rating is particularly important because it is usually regarded as a short-form summary of all the other factors that investors consider before making investment decisions. In summary, a credit rating is an assessment of a borrower's ability and willingness to

repay principal and interest on time. Credit ratings are forward-looking evaluations that can affect the level of interest rates payable on all new borrowings. Very often, however, changes in the ratings lag behind the market's own assessment of a borrower's credit and thus reflect, rather than cause, changes in interest rates.

21.72 The Government of Canada receives two credit ratings from the various domestic and international credit rating agencies — one for its domestic borrowing activity and one for its borrowings abroad. The government's credit ratings for both domestic and foreign debt were downgraded by several major credit rating agencies because of the sharp run-up of debt in the wake of the 1990–1992 recession. Nevertheless, Canada remains a top-rated sovereign borrower.

21.73 Investor Relations Program.

Interest rates and credit ratings cannot be controlled by the government's debt managers. However, debt managers can help investors and credit agencies understand the federal government's credit value. This is the purpose of the Investor Relations Program.

21.74 This Program requires debt managers to maintain close contact with rating agencies, to brief them on significant developments in the government's fiscal situation and generally keep them up-to-date on its progress toward announced financial targets. Regular contact is also maintained with domestic and international investors.

21.75 Fundamental to the success of the government's Investor Relations Program is the timely distribution of information on the federal government's fiscal, monetary and economic outlooks. The post-Budget visits by the Minister of Finance and senior Finance officials to the major

To stimulate investor interest in federal debt, the government distributes information on its fiscal situation and outlook to global financial markets.

financial centres, including London, New York and Tokyo, and the regular meetings of senior Finance officials with the major investment dealers and their clients have been well received. During these visits, officials inform investors about progress and developments in Canada and the targets the government intends to meet.

21.76 Our observation. Industry experts have commented favourably on the quality of information published by the Government of Canada, although they have said they would like more timely information on the government's reactions to current events and developments. This would help them to better understand the issues and evaluate the government's intended responses. Debt managers have affirmed their intent to continue consultation with market participants and rating agencies, with the objective of improving communication.

Evaluating and Reporting Results

21.77 The need for adequate performance evaluation within the government is a continuing theme that pervades much of the work of our Office. Given the size of the federal government's debt and the impact that interest costs have on fiscal results, it is essential that credible information be developed on a timely basis to show clearly whether debt management objectives are being met.

21.78 In 1992, the debt managers began a cyclical evaluation program, which was to be completed over five years. The planned approach was to review all major aspects of the government's debt management practices over this cycle, with a comprehensive evaluation to be completed every three to five years.

21.79 Current evaluation initiatives are useful in providing an understanding of the results of specific components of the

debt program. The debt managers, however, have not yet been able to develop appropriate methodology to enable them to assess in a quantitative, consistent way whether and how well they have succeeded in achieving their primary objective of raising funds at a stable, low-cost rate.

21.80 Such an assessment is not a simple task. Given the volume of transactions and the amount of debt involved, the government is clearly the dominant force in Canada's domestic market. As such, it becomes the base against which all other borrowers are compared in terms of credit quality and interest rate offered. There is no comparable organization against which to evaluate the performance of the government's domestic debt issues.

21.81 Other sovereign borrowers are having to deal with similar questions in their methodology and are attempting to identify meaningful performance indicators.

21.82 Our observation. Although we recognize that there are a number of challenges and constraints to developing a meaningful methodology for determining and reporting results achieved by the government's debt managers, we encourage the Department of Finance to continue its review of this issue, and to complete its ongoing cyclical evaluation. We also encourage the Department to follow through on its commitment to conduct comprehensive evaluations of debt management on a regular basis in future years.

A Government Risk Management Framework

Borrowing by Crown corporations

21.83 Discussion so far has centred on managing debt issued directly by the

The government needs to develop appropriate methodology to assess whether debt management objectives have been achieved.

Government of Canada. Certain Crown corporations also have the authority to borrow directly in capital markets to finance their activities. The borrowings of those corporations, designated as agents of the Crown, are direct obligations of the Crown and constitute a charge on the Consolidated Revenue Fund. Their borrowings are included in the government's debt figures only when they are not expected to be repaid directly by the corporation. At 31 March 1995, the government expected to repay \$4.3 billion of the \$23 billion borrowed in total by agent Crown corporations.

21.84 The board of directors of each Crown corporation is responsible for managing the business and other activities of the corporation. However, Crown corporations are required to obtain the Minister of Finance's approval of their annual borrowing plans, and may not enter into any particular transaction to borrow money without the approval of the Minister of Finance as to the timing, terms and conditions of the transaction.

21.85 The smaller annual funding requirements — some \$1 billion to \$5 billion — give Crown corporation debt managers considerable latitude in how, where and when they raise the necessary funds to finance corporate operations. Accordingly, the debt managers borrow when they believe that interest rates or foreign currency opportunities are most favourable.

21.86 Once corporate borrowings have been executed, debt managers focus their efforts on minimizing adverse effects that changes in interest rates and fluctuations in foreign exchange may have on the value of their indebtedness. To do this, they monitor risks and exposures regularly and, when necessary, adjust them through use of derivative contracts such as options (a right but not an obligation to buy or sell

specific securities at a specified time) and by futures and other means.

Government's review of risk management practices

21.87 Derivatives provide debt managers with an important tool for managing the financial risks associated with their business. However, these instruments have tended to become increasingly complex. The recent well-publicized losses associated with derivatives have highlighted the importance of sound risk management practices in all public and private corporations. This concern has prompted the development of improved techniques for measuring, controlling and reporting on all types of financial risk.

21.88 This is the context within which the Department of Finance has implemented its own review of risk management guidelines among Crown corporations and for financial transactions of the government. (We recognize that each Crown corporation has in place a risk management framework to meet its own objectives and to control operations, consistent with the degree of risk and complexity of those operations.) As we understand it, the intent of this review, which is being undertaken in consultation with the Crown corporations and the Bank of Canada, is to bring the risk management guidelines for the Crown corporations and the government's own risk management policies up-to-date with current trends and practices of prudently managed financial institutions and with emerging regulatory standards.

21.89 An important element of any risk management framework is the reporting and control procedure to ensure that all financial risks are regularly identified, measured and reported to senior management. In view of the increasing use of derivatives by the government and

A process for monitoring financial exposures across the government would help identify areas of concern.

its Crown corporations, we would expect the new policy to incorporate a sharing of information on the major financial risks involved. A process for timely monitoring of financial exposures across the entire government borrowing operation would alert senior financial managers to any potential areas of concern.

21.90 Our observation. We encourage the government to continue the development and implementation of its overall risk management framework. Sound policies and guidelines are essential tools in the accountability framework for reporting to the Minister and to Parliament on activities of Crown corporations and the government. They are important for financial management purposes and for promoting compliance with applicable government policies and legislative authorities.

Conclusion

21.91 Our intent for this chapter was to provide a basis for a better understanding of the overall environment in which debt managers operate, by highlighting:

- the effect of the debt strategy on fiscal results;
- the key issues to be addressed in the development of the strategy;
- the risks to be managed by the use of short-term and long-term instruments; and
- the importance of market development and efficiency initiatives necessary to ensure a steady supply of stable, low-cost funds.

21.92 The results of our study indicate that the federal debt managers' activities and practices are consistent with those of other comparable sovereign borrowers. Given the level of the debt and the annual gross borrowing requirement, industry experts we consulted advise that the federal government has little choice but to continue being a transparent, interest-rate-neutral borrower in its domestic market.

21.93 Looking ahead, the challenge for the government will be to continue this strategy until its financial condition improves considerably, at which time debt managers may be able to exercise more flexibility in their borrowing methods.



About the Study

Objectives

Our objectives were:

- to inform members of Parliament and others about how the government raises and manages its market debt;
- to provide our comments and observations on various aspects of the federal debt managers' practices and activities; and
- to acquire sufficient in-depth understanding and information to enable us to identify significant debt management activities for audit in subsequent years.

Scope and Approach

This study is based on:

- a review of published information on the practices and activities of debt managers in issuing debt on domestic and international markets;
- structured interviews with financial market experts and debt management officials of other governments; and
- the practical experience and familiarity with the important issues in debt management gained by two team members who worked with the federal government's debt managers for a period of five months.

The published information on debt management activities and practices that we reviewed included the Public Accounts of Canada, the federal government's Debt Operations Report, various reports by Statistics Canada, the Bank of Canada and the Organization for Economic Co-operation and Development, and publications of other governments including the United Kingdom, the United States, Sweden, Denmark, Ireland and the Province of British Columbia.

We held 12 structured interviews with leading financial market experts in New York and Toronto. We also met with officials from the government debt management offices of Sweden, Finland and Denmark, as well as Ireland and the United Kingdom, to learn about their views and approaches to raising market debt; to obtain information on the evaluation and measurement of their debt managers' activities; and to review the reporting and control framework they use to monitor debt operations and financial exposures.

Study Team

Anne Marie Smith
Natasha Rascanin

For information, please contact Brian Pearce, the responsible auditor.

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**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 22
Federal Contaminated Sites –
Management Information on
Environmental Costs and Liabilities

November 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 22
Federal Contaminated Sites –
Management Information on
Environmental Costs and Liabilities



November 1996

This November 1996 Report comprises 19 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

Chapter 22

**Federal Contaminated Sites —
Management Information on
Environmental Costs and
Liabilities**

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Federal Contaminated Sites — Management Information on Environmental Costs and Liabilities

*Commissioner of the Environment and
Sustainable Development: Brian Emmett
Responsible Auditors: Wayne Cluskey and Dan Rubenstein*

Main Points

- 22.1** The federal government does not have a complete picture of its environmental risks, costs and liabilities arising from federal contaminated sites. Some estimates place the federal share at \$2 billion, excluding the costs of dealing with radioactive waste. The government is not in a position to adequately assess the risk to health, safety and the environment and to establish the timing and costs for remediation of federal contaminated sites.
- 22.2** Currently the government does not have a timetable to assemble a complete picture of the extent to which its lands have been contaminated by a variety of pollutants, ranging from unexploded military ordnance to petroleum products.
- 22.3** Departments are starting to move in the right direction and some progress has been made in the past five years. However, it has been uneven among departments. Based on the current rate of progress reported by 12 departments, it could take them collectively at least another decade to complete the task of identifying, assessing and remediating their contaminated sites. We are concerned that some of the departmental timetables may be overly optimistic.
- 22.4** There is a need for the government to establish minimum standards of “due diligence” in determining the potential risks posed by the contamination of federal lands and the appropriate remediation required. (Due diligence is a concept in law that activities have been undertaken with the attention and care legally required or generally accepted as appropriate.)
- 22.5** Cost estimation and periodic reporting on contaminated sites need to be strengthened so that parliamentarians, managers and the public can be provided with a realistic picture of the extent of potential environmental and health risks and costs.
- 22.6** A more cohesive and coherent central approach to the management of contaminated sites is required across the portfolio of federal lands. Some form of central leadership is required to set out the common practices, protocols and policies needed to ensure that scarce resources are consistently directed to the higher-risk contaminated sites. The unresolved governance dilemma for the government is how it will ensure consistency and coherence without creating new central structures.

Introduction

The nature and extent of federal contaminated sites

22.7 Land holdings of the Government of Canada account for approximately 40 percent of the total land mass of the country. The majority of federal lands are in the Northwest Territories and the Yukon. Excluding those lands, the total property administered by the federal government has been estimated at 21.4 million hectares of land, with 19 million hectares owned and 2.4 million leased. Contamination of specific sites occurred largely during the last war and during the postwar period, although urban industrial areas, historical railway developments, old ports and reclaimed land provide examples of contamination dating back to the last century. Contamination has occurred at government laboratories, military bases, harbours and ports, airports, training facilities and reserve lands, to name a few. Types of contaminants include PCBs, residue from active and inactive waste disposal sites, mining wastes, tires, liquid or industrial waste, biomedical waste, sewage, asbestos, all forms of petroleum product waste, trace metals and other types of soil contaminants. They also include contaminated sediment in harbours.

22.8 Contaminated sites are scattered throughout the total federal portfolio of land held by custodial departments, some in urban settings and others in remote areas. The portfolio of contaminated sites is unevenly distributed among departments. There is a wide diversity in the extent of contamination, ranging from high-risk sites that require immediate attention to lower-risk sites where departments have more discretion in the timing of remediation. An example of a complex, high-risk waste site could be a landfill site in Ontario that was used for the burial of

hazardous and liquid wastes generated by a number of federal departments, agencies and laboratories. Remediation of such a site could take many years.

22.9 Low-risk sites, which typically comprise the greatest proportion of contaminated properties in any portfolio, are generally affected by marginally elevated levels of chemical or other contaminants that pose little or no risk to health, safety or the environment. However, the presence of these contaminants may affect opportunities for unrestricted re-use of a property. This could have a substantial impact on the cost of redevelopment and on the current value of the land as a realizable asset.

Past efforts at creating a comprehensive database

22.10 The government has known for some years that meeting public expectations about its own environmental stewardship will require it to complete a comprehensive inventory of its contaminated sites. As part of the National Contaminated Sites Remediation Program (NCSRP), which operated from 1989–1995, Environment Canada started to develop a list of federal sites suspected of being contaminated and requiring further study. This initiative stopped when the Program ended. In Chapter 2 of our May 1995 Report, *Environment Canada: Managing the Legacy of Hazardous Waste*, we noted that the inventory of federal contaminated sites assembled by Environment Canada was not complete. We reported that the total potential clean-up cost for federal contaminated sites was probably at least \$2 billion, excluding estimates dealing with radioactive wastes. However, the chapter did not assess whether the databases being assembled by individual departments with custodial responsibilities for federal lands were sufficiently comprehensive for the

The \$2 billion estimate of clean-up costs (excluding radioactive wastes) for contaminated sites on federal lands constitutes an unrecognized expenditure.

government to compile a complete and accurate list of such sites.

Why the government needs a complete picture

22.11 The federal government needs better information on the environmental costs and liabilities associated with these sites, for five reasons. First, as a responsible landowner, the government would want to ensure that the high-risk sites posing the greatest risk to public health, safety and the environment were consistently among the first to be remediated. Second, Canadians expect the government to discharge its stewardship of federal real property with the due diligence expected of a prudent landowner. Third, the \$2 billion current estimate of the federal government's potential share of clean-up costs (excluding radioactive wastes) for contaminated sites on federal lands constitutes an unrecognized expenditure that could materially affect the government's reported financial condition. Fourth, the contamination of federal lands may inhibit the government's plans to transfer land and government operations to third parties, including devolution and land claims settlements. Fifth, the government may have to forego revenue on sales of land.

Focus of this chapter

22.12 This chapter reports on the progress made by custodial departments in developing management information on their environmental risks, costs and liabilities. The focus is on central leadership and the progress made by three departments with large portfolios of federal land — National Defence, Transport Canada and Indian and Northern Affairs. The chapter also reports the results of a questionnaire completed by these and nine other departments responsible for federal lands with contaminated sites. We

worked closely with an interdepartmental working group, the Contaminated Sites Management Working Group, during the course of this audit. Our work excluded Crown corporations and issues of radioactive waste (the latter was addressed in Chapter 3 of our May 1995 Report, *Federal Radioactive Waste Management*). As part of our work, we looked at best practices for developing databases on large land portfolios. Our chapter first presents the best practices we observed in other jurisdictions; then reports on the government's progress in developing similar practices to manage its large portfolio of contaminated sites. Further details on the audit objectives, scope and criteria are presented in **About the Audit** at the end of the chapter.

Observations and Recommendations

Best Practices for Managing a Large Portfolio of Contaminated Sites

Need for a comprehensive environmental policy on contaminated sites

22.13 As part of our audit work, we conducted a general literature search. We researched the practices of eight public and private sector property managers in Canada and the United States. We also reviewed the relevant regulatory practices of 10 other jurisdictions in North America, Europe and the Pacific Rim.

22.14 **Canada's challenge is to deal with the legacy of contamination, with dwindling resources.** Our review of other jurisdictions' practices for managing the legacy of their contaminated sites revealed that most are faced with the challenge of allocating ever-shrinking resources to the highest priorities. Organizations we

interviewed stated that in the late 1980s and early 1990s there were sufficient resources to clean up contaminated sites as they were identified. We were advised that many organizations now have to do a more rigorous job of ranking priorities, both within an organizational unit and among organizational units competing for scarce resources. Some of the organizations we reviewed stated that they are having to balance potential investments in the clean-up of existing contamination against other investments in environmental protection intended to prevent future pollution. They also stated that currently they need to know the following information about their contaminated lands:

- which properties pose a risk to health, safety and the environment because, for example, contamination may migrate into the food chain or a community's water supply;
- which properties pose a legal liability because of non-compliance with applicable regulatory requirements, as well as what needs to be done to ensure adequate protection of human health and the environment, consistent with these regulatory requirements;
- where effort and financial resources must be directed to address these risks fully;
- what relative priorities should be set for the timing of remedial action required to address regulatory, human and ecological safety issues; and
- the magnitude of the costs and liabilities, and the anticipated schedule for funding the required remediation.

22.15 Our research led us to identify nine key elements of best practice for generating the information to answer those questions. These elements are:

- a comprehensive environmental policy that defines an organization's intent with regard to its contaminated sites;
- a consistent approach to defining and identifying contaminated sites;
- data collection strategies that reflect a systematic approach to the identification, assessment and remediation of contaminated sites;
- environmental liability assessments — the process used to determine whether a property is contaminated and, if so, to quantify the extent of the likely contamination (see Exhibit 22.1);
- cost estimation of remedial requirements, on a site-by-site basis;
- budgetary management that includes setting priorities in a consistent manner, allocating funds and reporting on the remediation achieved with those funds;
- public consultation where environmental management procedures and risk assessments are used for site clean-up in areas that affect the general public;
- long-term monitoring and management of residual contamination left in place; and
- periodic reporting of environmental risks, costs, liabilities and progress.

22.16 We were advised that two levels of leadership are needed — the central leadership required for co-ordination of portfolio management throughout an organization, and the leadership expected from those co-ordinating the activities of property managers responsible for day-to-day custodial activities. We were also advised of the critical importance of establishing an environmental policy on contaminated sites.

22.17 The critical importance of establishing an environmental policy on contaminated sites. An environmental policy is required to ensure that a

Managing a large portfolio of contaminated sites in a comprehensive way requires the development of a related environmental policy.

consistent approach is adopted throughout an entire organization. Such a policy should define an organization's environmental objective. Is it solely to comply with applicable laws or is it to retain and enhance the value of the real property portfolio? Does the organization intend to discharge all liabilities immediately, or to set long-term priorities and deal with them over a defined timetable, within planned budgetary constraints? Responsibility for implementing the policy needs to be clearly defined — both administrative responsibilities and management reporting responsibilities. The policy needs to be supported by a practical, comprehensive set of common procedures to ensure that the condition of the lands in the portfolio is assessed in a consistent way.

22.18 In our interviews with officials of outside organizations we found a diversity of remediation objectives. These ranged from increasing the commercial value of land to following compliance-based procedures, depending on the owner's intentions for the use of the lands in question. Enhancement of the commercial

value of a property is typically adopted as an objective where the owner is contemplating the sale of the property to, and assumption of residual liability by, a third party. However, risk-based environmental management and compliance-based procedures can constitute the most cost-effective approach.

22.19 Large organizations with smaller operating components stated the need to define minimum standards of due diligence. Property managers need to know what is expected of them. The organizations we interviewed stressed the importance of making an initial identification and preliminary assessment of an organization's high-risk sites. The objective of such a review is to identify all sites that require immediate action so that priorities, timeframes and budgets can be set. Organizations also stressed that periodic reporting of risks, costs, liabilities and progress is critical.

Periodic reporting of risks, costs, liabilities and progress is critical

22.20 The need for common reporting conventions. An organization needs to decide whether all sites or at least certain

Exhibit 22.1

Environmental Liability Assessments

Source: Generally Accepted Standards for Environment Investigations, Consulting Engineers of Ontario, April 1993

Environmental liability assessments initially involve reviews of past operations, practices and occurrences to determine the legacy of environmental contamination at a site. Subsequent stages of liability assessment confirm the presence of contamination and determine the actions required to resolve any problems present at a site. Costs for site remediation/clean-up are normally determined toward the completion of the liability assessment process.

Environmental liability assessments are normally conducted in three phases:

- Phase 1 – property assessment
- Phase 2 – site investigation
- Phase 3 – remediation alternatives assessment

Phase 1 property assessments (also commonly referred to as Phase 1 audits, environmental site reviews, environmental site assessments and site audits) involve a review of secondary information and an inspection of the site/facility to identify environmental issues and potential problems. Phase 2 site investigations involve sample collection/analysis and other physical/chemical measurements to confirm and quantify the presence of contaminants. In Phase 3, all site and contamination data are reviewed and additional analyses/trials are conducted to determine the most effective and most economical method of remediating environmental problems at a site. Firm cost estimates for site remediation/clean-up are normally provided at the end of Phase 3.

categories of sites will be ranked for assessment and remediation. An alternative approach used by some (which is not necessarily best practice) is to decide whether some specific “trigger event”, such as a sale or a lease, is required to initiate an assessment. There needs to be a process for establishing priorities based on risks to human health and safety and the environment; ensuring compliance with the regulations, legislation and policies; and considering other socio-economic factors. In some jurisdictions where contamination occurs that may have an adverse affect on the environment, there may be a need to report that contamination to the appropriate regulatory agencies. Procedures should be in place to cover such eventualities. The use of available funds should be controlled so that they are allocated efficiently to the higher-risk sites across an organization. Regions and programs need to be accountable for the way they spend the money allocated to them. Procedures also need to be put in place to ensure that the most cost-effective solutions are identified. Unless specifically rejected because of practical or legal considerations, those solutions would be applied uniformly across a diverse portfolio.

22.21 In other jurisdictions, we found that in all cases where sound management information is being developed, the organizations have established common conventions for their databases on contaminated sites. For example, they have prepared standardized reports on contaminated sites, which they expect property managers throughout the organization to use. These reports require managers to fill in information such as the site description; the contaminant type, source and location in soil and/or groundwater; the hazards identified; the ranking in order of risk; an environmental liability summary; and the summary of estimated costs to discharge these

liabilities. Other required information includes a recommended action plan as well as the estimated costs to manage environmental liabilities. These organizations have thought through how the information will be consolidated at various levels of the organization to support informed decision making, as well as to ensure accountability for the use of funds. There are established procedures to update this information on a periodic basis.

22.22 As illustrated in Exhibit 22.2, the starting point is the central leadership expected for co-ordinated portfolio management. There is a need for a central policy framework. The focus of this exhibit is on creating the right reporting conventions, as described above, so that information can be consolidated relatively easily.

No Complete Picture of Potential Risks and Clean-up Costs

Uneven progress in developing departmental databases

22.23 As part of our audit, we asked 12 departments to complete a questionnaire. We considered those departments to have moderate to high risks of holding contaminated sites in their overall portfolio of lands. The objective of the questionnaire was to determine the progress departments have made in managing their contaminated sites. **We did not audit the responses, although in some cases we sought some clarification.** One of the problems encountered during the audit was trying to reconcile internal inconsistencies in the various figures provided by some of the respondents, which can be attributed to the absence of well-established and reconcilable databases. Another major problem was different definitions of what constitutes a contaminated site.

About 5,000
contaminated federal
sites have been
identified to date.

Many departments are still just beginning to identify all of their contaminated sites.

22.24 An increase in identified sites.

The 12 departments responding to our questionnaire have identified about 5,000 contaminated federal sites, ranging from high-risk to low-risk sites. This is still a preliminary figure because all sites have not been identified, and many departments have not yet started to systematically assess and manage their portfolios of contaminated sites. It is a very incomplete figure in that it does not include all departments, Crown corporations or agencies. However, we believed that even this very rough estimate was a good place to start. Our interviews with other organizations suggested that refinement typically occurs with time. The challenge for the government is to assemble a realistic picture of its contaminated sites.

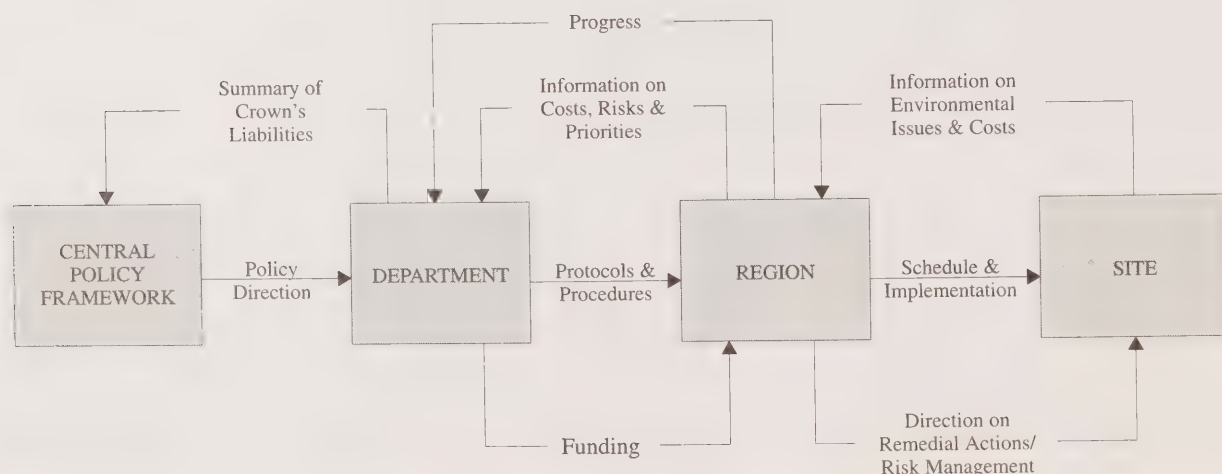
22.25 What is the government's responsibility? In most cases, departments reported that over 50 percent of their contaminated sites resulted from federal activities rather than those of lessees or other third parties. This raises the matter of the government's ultimate responsibility

for the remainder of these sites. The questionnaire responses, supplemented by our interviews at three custodial departments, indicated that property managers need answers to the following questions: Is the government legally and morally liable for contamination caused by third parties? What are the government's responsibilities for contaminated lands it has transferred, sold or leased? Are current procedures adequate to prevent the creation of future orphan sites? Respondents reported with regard to leases that most are adopting a "polluter pays" principle and beginning to incorporate it into their lease agreements. Some responses indicated the need for some central guidance in this important emerging area. The guidance available to address these issues is described later in this chapter.

22.26 Different priorities and changing real property strategies. As illustrated in Exhibit 22.3, many departments are still just beginning to identify all of their contaminated sites. Recent government downsizing has

Exhibit 22.2

Management of Information on Contaminated Sites Summary of Reporting Conventions



resulted in different environmental mandates, both among and within government departments. Sectors in departments tasked with devolution tend to manage their land on a transaction-by-transaction basis. Sectors in departments that retain a long-term occupancy mandate

tend to manage their land on a portfolio basis.

22.27 Lack of consolidated cost information. The questionnaire also revealed that most departments have not consolidated their separate cost estimates

Exhibit 22.3

Questionnaire Summary: Uneven Results in Conducting
Environmental Liability Assessments

Department (Division)	Estimated Percentage of Contamination Related to Federal Activities	Procedures Established to Deal with Contaminated Sites?	Progress: Phase* for Portfolio	Overall Timeframe to Manage the Contaminated Sites (Years)
National Defence – Active Bases	96–100	Yes	Phase 1 & 2	10
National Defence – Decommissioned Bases	96–100	Yes	Transaction-based	2
National Defence – DEW Line	100	Yes	Management of contamination	Cleanup: 10; Monitoring: further 9
Transport Canada – Airports	76	Yes (transaction based)	Transaction-based	5
Transport Canada – Harbours and Ports	0	Yes	Transaction-based	Not reported
Indian and Northern Affairs – South	3	Yes	Between Phase 2 & 3	6
Indian and Northern Affairs – North	Less than 20	Yes	Phase 2	10
Natural Resources Canada	100	Yes	Half at Phase 2 Half at Management of Contamination	3
Agriculture and Agri-Food Canada	99	Yes	Management of Contamination	Not applicable
Fisheries and Oceans Canada	75	Yes	Phase 1 & 2	5–7
Public Works and Government Services Canada	85	Yes	Phase 1 & 2	5–7
Environment Canada	98	Yes	Phase 2	5–7
Correctional Service Canada	None	Yes	Not applicable	Not applicable
RCMP	100	Preliminary	Phase 1 & 2	Not reported
Health Canada	100	Limited	Phase 1	2
Parks Canada	51	Limited	Phase 2	Not reported

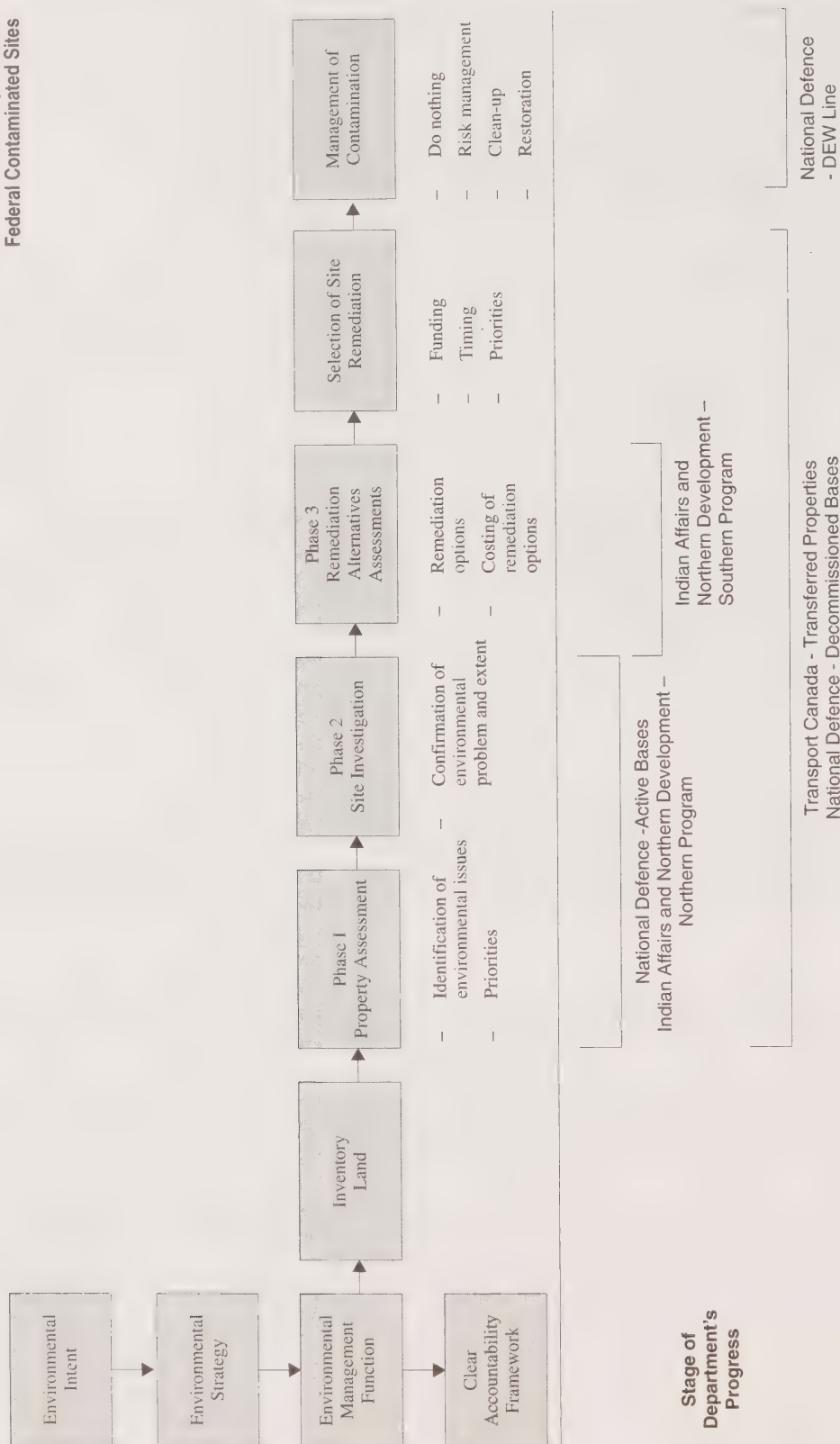
* Phase 1 (Identification of Environmental Issues); Phase 2 (Confirmation of Environmental Problem and Extent); Phase 3 (Remediation Alternatives Assessment); Selection of Site Remediation and Management of Contamination.

Source: Departmental self-assessments

Federal Contaminated Sites — Management Information on Environmental Costs and Liabilities

Exhibit 22.4

Environmental Management of Federal Contaminated Sites



N.B. The objective of this chart is to provide an overview of where each department is in the process of conducting environmental liability assessments for its *whole* portfolio. What are not illustrated are details on the contaminated sites that have been identified to date and remediated by the three departments.

for specific sites to develop an overall cost estimate. Departments reported that they have not been asked to prepare an overall cost estimate for the clean-up/management of contaminated sites for inclusion in the government's summary financial statements, or for their Estimates Part III. There did not appear to be a consensus on what should or should not be disclosed in the Estimates Part III.

22.28 It is difficult to get a complete picture of progress on high-risk sites.

From the questionnaire data supplied by departments, it was difficult to determine whether they had assessed all their high-risk sites or the extent of their progress in remediating them. To better understand the questionnaire results, we looked in greater detail at the progress made by National Defence, Transport Canada and Indian and Northern Affairs in the process of systematically conducting liability assessments for their portfolios of contaminated sites (see Exhibit 22.4).

22.29 Each department is working to its own timetable. The questionnaire also asked departments to estimate the time required to complete the assessment and remediation of their portfolios of contaminated sites. For those departments that provided an estimate, the range was from five to ten years. Long-term monitoring of sites where risk is being managed can be expected to extend the timeframe. For most departments responding to our questionnaire, these are still very preliminary estimates of completion dates. Their achievement depends on the government's commitment and future funding, on the costs of remediation yet to be identified and on other factors.

22.30 The questionnaire results indicate that some progress has been made by major departments but that they still have a long

way to go to complete the identification, assessment and remediation of their contaminated sites. Completion of these tasks could take at least another decade, but the completion dates depend on government funding levels. We have concerns that some of the completion date estimates may be overly optimistic.

22.31 Notwithstanding that certain departments have identified appropriate timetables for action, we are concerned that there is no overall completion date for which the government as a whole can be held to account. There is no overall co-ordinated plan to complete the job, and no one organization states that it is accountable for ensuring that the job is completed. As a minimum, the government needs to establish a realistic timetable for the identification, assessment and remediation of its entire portfolio of contaminated sites. Completing the identification and assessment components would be an initial priority. The assessment and remediation of high-risk contaminated sites would also take precedence. As is discussed later in this chapter, the key question is: Who should establish this action plan, including a roll-up, monitoring and reporting on progress? Normally this Office addresses its recommendations to specific entities that should be accountable for resolving the issues raised in our observations. In this chapter, however, our recommendations refer to "the government" in cases where we found that no entity believes it is accountable for taking a lead role.

22.32 The government should establish a timetable for the identification, assessment and ultimate remediation of federal contaminated sites, particularly its high-risk sites, and ensure that progress against this timetable is monitored centrally across the portfolio of federal lands.

There is no general target date and co-ordinated plan for the government to complete the identification, assessment and remediation of federal contaminated sites.

There is no comprehensive high-level policy statement that articulates the government's legal and moral obligations to manage federal contaminated sites.

Need for Central Leadership

Limited central leadership to date

22.33 No comprehensive environmental policy. The government has not clearly articulated its policies with respect to the management and remediation of the contamination of federal lands. As reported in May 1995 in Chapter 2, Environment Canada: Managing the Legacy of Hazardous Wastes, the legislative framework for dealing with federal lands is not comparable with the frameworks that the provinces use for dealing with non-federal lands. There are no regulations under the *Canadian Environmental Protection Act* that Environment Canada can apply to ensure the clean-up of federal contaminated sites. Where there are general statements about environmental stewardship and sustainable development, we were unable to obtain a high-level policy statement and a co-ordinated strategic plan by the government that clearly specified its:

- general approach to defining a contaminated site, including an articulation of the government's legal and moral obligations to manage its contaminated sites;
- objectives for completing liability assessments of any or all of its contaminated sites; and
- intent for the management, clean-up and disposition of its contaminated sites.

22.34 In the absence of clear policy direction, custodial departments have had to develop their own answers to five fundamental questions: How clean is clean enough? How fast is fast enough to complete the assessment and ultimate remediation of federal contaminated sites? How diligent is diligent enough for the whole portfolio of departmental lands? How much risk is the government prepared

to accept in not cleaning up a site? Whose standards will apply — federal, provincial and/or local?

22.35 There is limited central policy direction in place to ensure that custodial departments set priorities in a consistent and coherent way. Given the current fiscal framework — each department operating with an established allocation of funds and with no established standard of practice in force — it is inherently difficult to ensure government-wide consistency in establishing and ranking priorities for remediation. As well, it is difficult to deal cohesively and consistently with longer-term funding issues. The government is not in a position to know whether there are inconsistencies in the decisions that are made, because acceptable levels of risk are interpreted differently among managers and departments. This is due to a lack of central policy and guidance. As a result, there may be inconsistencies in the evaluation and handling of high-risk sites both within and among departments.

22.36 Technical guidance available. We found that the environmental management of contaminated sites is a discipline with an evolving body of knowledge. Within this context of emerging best practices, we found that a scientific "tool kit" had been developed as part of the National Contaminated Sites Remediation Program. This tool kit has been available to departments and used by them in classifying contaminated sites. General standards have also been developed in conjunction with the provinces and the federal government by the Canadian Council of Ministers of the Environment (CCME). These have been applied by Environment Canada and other federal departments. The standards define desired levels of remediation for different proposed uses of land. The scientific tool

kit provides information on site classification (ranking), subsurface assessments, clean-up criteria, ecological risk assessment and methods for developing site-specific clean-up objectives. Further to these, Environment Canada has developed other documents on drafting terms of reference, bioremediation of soils and technical assistance bulletins (TABS), as well as a database of technologies. A *Guide to Green Government* lists best practices for land use management, which are intended as guidelines and cover the use of the scientific tool kit. For example, contaminated sites are to be identified, classified and assessed using the CCME National Classification System. The use of risk assessment and techniques for containment, migration and remediation are suggested.

22.37 The Real Property Volume of the Treasury Board Manual provides general standards. For example, departments are expected to maintain information as warranted by the risk to the environment associated with properties in their portfolios. Before purchase or disposal of a property, departments are expected to ascertain its environmental condition. However, the scientific tool kit and the Treasury Board Manual were not intended to address high-level policy questions critical to the management of contaminated sites, such as how clean is clean enough and how fast is fast enough. These documents do not articulate the government's legal and moral obligations for its contaminated sites. They do not spell out the government's objectives, intent, or proposed timing for dealing with its contaminated sites. The documents are silent on how much risk the government is prepared to accept, and on whose standards will apply.

22.38 No common reporting

conventions in use. There is no consistent, comprehensive common process in use that would support the development of consistent databases by custodial departments. There are no common reporting conventions in use. We observed that departments are working largely on their own to design, implement and operate their own databases. There are no conventions in use to ensure that this information is consolidated and available to support the government's policy decisions. Although there are a number of potential users, currently no one organization is asking for this consolidated information. Some custodial departments said, "We can prepare a report card, but who do we send it to?"

22.39 The Department of Finance is not routinely provided with the information it needs on the potential range of environmental liabilities for purposes of fiscal management, establishing federal budgets and anticipating lurking expenditures that could increase the federal deficits and debt. The Treasury Board Secretariat's Financial and Information Management Branch is not currently receiving the summary information on the Crown's environmental liabilities that we believe it needs when preparing the annual financial statements of the Government of Canada.

22.40 In our opinion, the government as a whole also needs, for all departmental property portfolios, initial estimates of the environmental costs and implications associated with deferring action, ensuring compliance with applicable laws and regulations, and achieving risk-based environmental management to permit safe, beneficial property usage. This information would help policy makers determine what is affordable when grappling with the

There is limited central policy direction to ensure consistency in the way departments establish priorities for high-risk sites.

tough policy issues of deciding how clean is clean enough or how fast is fast enough. Currently there are no conventions in place to ensure that this information is provided to policy makers.

22.41 Who will provide the central leadership required for co-ordination of the contaminated sites issue? During interviews we were advised that no federal organization believes it is solely accountable for developing a coherent federal strategy, policy, reporting conventions and timetable for dealing with federal contaminated sites. However, interdepartmental working groups have been formed to address some of the government-wide portfolio management issues.

22.42 The government has organized the management of federal real property so that there is no one central landlord and no one central policy maker. The administration of real property is carried out by program departments who require real property for the delivery of their programs. In 1992, Parliament passed the *Federal Real Property Act*, which articulated the principle of ministerial accountability for real property. Departmental ministers act, in essence, as the responsible landlords for the property under their administration. Under this arrangement, several departments provide policies that reach horizontally across the management of federal land. Treasury Board provides policies and direction on real property management in areas where the government wishes to exercise central direction to departments and where this is not provided by other central policy-making organizations.

22.43 Environment Canada's role has been to develop the required technical tools and to provide technical guidance to departments. Under the National Contaminated Sites Remediation Program,

the Department also provided financial incentives, or seed money, to assist departments in completing site assessments and to help them become more aware of their situation. The Hazardous Waste Branch at Environment Canada stated that its role in providing technical guidance, policy and expertise for federal contaminated sites will cease 31 March 1997, as a result of Program Review cuts. The Branch stated that it currently lacks the resources and authority to establish government policy, particularly in light of the termination of the National Contaminated Sites Remediation Program. At the time of our audit, the Branch was participating actively in an interdepartmental working group that had been established under the broad leadership of the Environmental Accountability Partnership Steering Committee. One of the committees of the Partnership, the Federal Committee on Environmental Management Systems, had identified the need for a sub-committee to address the issues of management of federal contaminated sites.

Interdepartmental working groups provide a needed forum

22.44 The Contaminated Sites Management Working Group was established in July 1995 to help develop a common federal approach to dealing with contaminated sites under federal custody. The Working Group has identified major topics to be addressed, such as the need for an accepted protocol for undertaking the assessment of sites; the need to present risk assessment and risk management concepts and procedures to departments; the issue of the government's legal liability; the need for a government-wide approach to funding; and other issues, such as the need to develop common reporting conventions. During our audit we collaborated with the Working Group in preparing the

questionnaire whose results are summarized in Exhibit 22.3. We observed that the Working Group was moving in the right direction by addressing key issues, such as the need for a more consistent federal approach. We were advised that this Working Group will have gone as far as it can by 31 March 1997, based on its current mandate, resources and authority. At the completion of our audit work in May 1996, a sub-committee of the Environmental Accountability Partnership at the level of assistant deputy minister (chaired by Transport Canada) was working to develop a draft government framework for contaminated sites. The purpose of this framework is to help departments take a consistent approach to the remediation of sites, in the context of ongoing government use and transfer.

22.45 We support the concept of interdepartmental working groups to deal with environmental issues, and have taken a collaborative approach with such groups in the past. For example, the Federal Committee on Environmental Management Systems and its member departments worked closely with this Office in developing Chapter 11 of our October 1995 Report, *Environmental Management Systems: A Principle-based Approach*. We support the current efforts of the Contaminated Sites Management Working Group and other related committees to build a coherent and cohesive federal approach. Using interdepartmental task forces is one approach to issues that cross departmental lines. It is one way to provide central leadership — *if* these working groups have a clear mandate, sufficient authority and resources, and operate with a clearly defined accountability for specific results.

22.46 **The governance dilemma: how to provide leadership without creating new central direction structures.** A major

challenge for the government will be to ensure that these interdepartmental working groups have the resources, mandate, clear accountability and authority needed to get the job done. Another significant governance challenge for the government is how to ensure consistency and coherence without creating new central structures. There are a number of alternatives available, ranging from Cabinet directives to the collaborative approach taken in *A Guide to Green Government*. Whatever approach is chosen, there are some fundamental accountability issues that need to be resolved. For example, who would be authorized to approve draft policies such as a draft “template” to be used for reporting? Who would be accountable for co-ordinating and overseeing the implementation of the policies that are developed? We observed that the two organizations positioned to provide the sustained central leadership on behalf of the government are the Hazardous Waste Branch at Environment Canada and the Bureau of Real Property and Materiel at the Treasury Board Secretariat. We were advised, however, that neither organization sees itself as the lead agency in establishing a more consistent and coherent federal approach to dealing with federal contaminated sites.

22.47 We concluded that there is a need for the government to confirm which organizations will provide the central leadership required for co-ordinated portfolio management, who the members of the working groups should be and the results for which they will be accountable. It is imperative that these groups have sufficient authority, and members at the appropriate levels. We also concluded that the diversity of practices, timetables and mandates suggests the need for a more co-ordinated, cohesive and consistent federal approach to the government’s contaminated sites. Such an approach is

Who will provide the central leadership required for co-ordinated portfolio management?

required for the government to develop a complete picture of the associated environmental risks, costs and liabilities.

22.48 The need for common policies.

There is a need for the government to establish some common protocols that are commensurate with its decentralized approach to portfolio management of federal lands. These common protocols should address, as a minimum, the following real property issues:

- **Environmental policy.** What are the government's intentions for the clean-up of its contaminated sites or the management of the risks they pose? What are its legal and moral obligations to the Canadian public?
- **Periodic reporting of risks, costs, liabilities and progress.** What consolidated information does the government expect custodial departments to capture on a regular basis and to report in a consistent way? Who will be the custodian of this central information? What are the protocols for access, update and basic architecture of the required databases? Who will monitor progress?

22.49 These issues are not new but are now becoming more important. In our opinion, it is not unreasonable to expect that they can be resolved over the next two years, based on practices we observed in other jurisdictions.

22.50 The government should resolve the following real property management issues for federal contaminated sites as quickly as possible:

- **develop a comprehensive environmental policy that includes a clean-up action plan;**
- **develop a government-wide approach to periodic reporting of environmental risks, costs, liabilities and progress. This information should be used to ensure that the government is**

meeting its obligations with regard to its contaminated sites; and

- **determine which organizations will ultimately be accountable for providing the central leadership necessary to ensure a consistent and coherent federal approach to contaminated sites.**

Environment Canada's response: Central policies, specific to the general management of the federal land portfolio, are found in the Treasury Board Secretariat's manual on real property and incorporate the Code of Environmental Stewardship. A Guide to Green Government also provides general direction to federal departments on proper land management.

Under the current government accountability framework, departments are responsible for managing their contaminated sites, which includes the identification, assessment and ultimate remediation of their sites. Timetables along with action plans for dealing with their contaminated sites could be provided by departments in their sustainable development strategies, which are to be tabled in the House. The Commissioner of the Environment and Sustainable Development may wish to review these in order to monitor the progress achieved across the federal government.

As noted in the chapter, Environment Canada has developed scientific tools and approaches needed for dealing with contaminated sites. Under the former National Contaminated Sites Remediation Program, Environment Canada provided seed money to federal departments and developed, through the Canadian Council of Ministers of the Environment, the necessary scientific tools to allow for the assessment, classification and remediation of sites. A technical framework now exists that allows departments to address their contaminated sites. This program ended as planned in March of 1995.

During the fiscal year 1996–97, Environment Canada will co-chair the

Contaminated Sites Management Working Group (CSMWG) and will continue to investigate and promote a common federal approach to the management of contaminated sites. The Working Group is working closely with the Environmental Accountability Partnership's (EAP) sub-committee on contaminated sites, which is exploring potential policy issues. Resources permitting, Environment Canada will continue to provide technical guidance to departments through participation in such interdepartmental committees.

Further to its participation in the above programs and committees, Environment Canada will continue to enforce statutes, such as the Fisheries Act and the Canadian Environmental Protection Act, when and where applicable.

“Due Diligence” for Federal Lands

22.51 Given the limited practical guidance available to departments, we looked at how three departments have interpreted what constitutes due diligence for their portfolios of lands, some of which are contaminated. Our observations report on the practices of National Defence, Indian and Northern Affairs Canada and Transport Canada. For an overview of their progress, see page 22–22.

Different interpretations of what constitutes due diligence

22.52 General definition of due diligence. To be able to demonstrate due diligence, an owner of a contaminated property must, in the final analysis, be able to persuade the courts that it has taken adequate steps to acquire appropriate knowledge or appropriate professional advice on the potential risks posed by the contamination. As well, an owner must demonstrate that it has acted appropriately on this information. The objective is to comply with applicable environmental

laws. A duly diligent landowner must also determine whether known contaminants have either had or may reasonably be expected to have an adverse effect on neighbouring properties, nearby streams, bodies of water, underground aquifers or wildlife. A prudent landowner would assess the risks posed by the contaminants to human health, safety and the natural environment, given the sensitivity of the area in question and the possible “pathways of exposure” to persons using the site or property. There may be a need to post warning signs, erect fencing, provide specialized equipment or protective clothing for employees, or arrange for the installation of soil/groundwater monitoring equipment and procedures. The exercise of due diligence must also be followed for lands purchased or leased for government use. There is a need to identify any potential liability for contamination caused by others (a “latent defect”) to lands that the Crown proposes to acquire.

22.53 Depending on the risks posed by the contaminants, there may be a need to remove their source to bring the property up to agreed standards (a criteria-based remediation approach) or otherwise encapsulate or isolate the contaminants in place, managing the risks that have been assessed (a risk-based environmental management approach). Requirements for due diligence apply to lands occupied by the owner, as well as to lands leased or transferred to third parties such as local airport authorities. The foregoing constitutes a general description of due diligence. Our work indicates that departments require more detailed guidance on how due diligence applies to them.

22.54 Transfers to third parties require sound information on environmental issues. In the 1990s the government began planning to transfer to

OVERVIEW OF PROGRESS IN THREE DEPARTMENTS

National Defence

Land holdings at National Defence are organized into three broad categories for environmental management purposes, each with a group responsible for its management – active bases, decommissioned bases and Distant Early Warning Line (DEW Line) sites. These categories exhibit environmental issues of one sort or another and may contain sites that have become contaminated through departmental use over time.

Active bases. There are approximately 25 active bases not scheduled for decommissioning. The primary contaminants found in these sites, in order of magnitude, are hydrocarbons, heavy metals, other chemicals and unexploded ordnance. National Defence has been engaged in a program for the identification and remediation of contaminated sites on active bases for some years. To further this program, National Defence recently developed the Contaminated Sites Remediation Framework, which acts as the guidance document for managing contaminated sites. The framework is at the earlier stages, somewhere between conducting Phase 1 and Phase 2 assessments. The identification and assessment of the portfolio of active bases is scheduled for completion in 2002, with remediation/risk management scheduled for completion in 2005.

Decommissioned bases. The 1994 and 1995 federal budgets announced that a total of 34 bases/stations would be subject to closure, while another 10 bases/stations were to be reduced. These units would be transferred to third parties and National Defence would have to implement due diligence procedures during the course of decommissioning prior to their transfer. Three have had liability assessments completed. Identification and assessment of all decommissioned bases is scheduled for completion in 1998.

DEW Line sites. These sites were part

of a surveillance system built during the Cold War and operated by the United States across the Arctic. By the 1960s, technological advances allowed for every second base to be closed down. National Defence retained 21 of the bases; the remaining 21 were transferred to Indian and Northern Affairs. The DEW Line was officially closed in 1993 and in February 1996 National Defence signed an agreement with the Inuvialuit Settlement Region for the clean-up of six sites for \$68 million, to the year 2003. The contaminants of primary concern are PCBs, and other inorganic elements such as copper, lead and zinc. The key concerns relate to the effects of the contaminants on the arctic food chain, and their mobility and distribution, particularly into the aquatic environment.

Transport Canada

Airports Group. The Airports Group currently owns, operates or subsidizes 110 airports: 26 national; 33 regional/local; 22 small; 6 satellite; 9 arctic; and 14 remote airports. Under the National Airports Policy (NAP) announced in July 1994, Transport Canada will retain the ownership of the land of the 26 largest airports but will transfer the land and operations of the remaining regional/local airports to local authorities by March 31, 2000. The negotiations for the Arctic Airports program transfer to the territorial governments has been completed. Transport Canada will undertake to review its role at remote sites. To date, Transport Canada has transferred ownership and control of 37 airports to local entities.

A baseline study is required for all airports to be transferred. Contamination at airport sites arises from such activities as firefighter training, operation of fuel storage and distribution facilities, and waste disposal. Contamination has occurred on sites leased to others. The Group estimates that contamination of three quarters of the sites has resulted from activities of the federal

government; one quarter were contaminated by lessees.

Harbours and Ports Directorate. The Directorate is responsible for 549 public ports and harbours. Under the National Marine Policy, 199 proclaimed public harbours (ports without any properties or facilities) will be deproclaimed. Transport Canada will commercialize major public ports and transfer approximately 232 regional/local ports to local authorities, retaining less than 60 remote ports. Administration and control of 58 ports has been transferred to Fisheries and Oceans Canada. A baseline study will be conducted at all remaining ports for which Transport Canada will divest its ownership and control. Contaminated soils are typically associated with underground storage tanks, ore storage, spills of hydrocarbons (i.e. from tank farms) and the quality of fill placed during initial construction. The Directorate reports that none of the contaminated sites was caused by the federal government. Of 21 identified sites, contamination of thirty percent reportedly was caused by the lessees, while the balance of the contamination cannot be attributed to any particular party but may be due, in part, to shippers or other port users.

Indian and Northern Affairs

The Northern Program. The Northern Program is responsible for over 3 million square kilometres of land north of the 60th parallel in the Yukon and Northwest Territories. Much of the legacy of contamination arose during the postwar period, in part caused by military bases, mining operations, pipeline construction and transportation infrastructure such as airports. Before 1972 the use of the land from an environmental perspective was largely unregulated. Wastes that accumulated at specific sites include abandoned buildings, electrical equipment with some PCBs, chemicals, fuels and fuel drums and garbage. Leased sites were returned to the local government, often with no record of the

presence of residual waste on the site. Less than twenty percent of the contamination of sites resulted from government activity. The Northern Program has identified the extent of its problem and is moving towards remediation of these sites over the next decade.

The Southern Program. The Southern Program administers land transactions

under the *Indian Act* for 2,366 reserves, covering more than 2.75 million hectares of land. Contaminants at specific sites include PCBs, active and inactive waste disposal sites, mining wastes, tires, liquid or industrial waste, biomedical waste, sewage, asbestos, all forms of petroleum product waste, trace metals and other types of soil contamination. At this time, it has been estimated that 87 percent of the contamination of sites in the

Southern Program resulted from lease activity; up to 10 percent of the identified sites are estimated to require further remediation.

The Southern Program is the furthest along in assessing its complete portfolio. Remediation/risk management for both the Southern and Northern Programs is tentatively scheduled for completion by 2007.

third parties such federal operations as airports and decommissioned military bases. Individual departments, such as Transport Canada and National Defence, are faced with the need to establish the condition of the property to be transferred, and the cost to restore it to a condition acceptable to the third parties involved in negotiations. Some of these transfers involve the transfer of title; others involve long-term leases. In the first case, environmental liabilities affecting the property's value to the purchaser must be established. In the second, an environmental baseline condition must be provided, assuring the landlord that he or she can determine any detrimental impact during the lease period and assuring the tenant full utility throughout the entire term of the lease. The practice of "transactional due diligence" is common.

22.55 Some take a systematic look at the portfolio. We found that two of the three departments were taking a comprehensive approach to exercising due diligence for their portfolios of land. For example, National Defence has undertaken a systematic approach to assessing all the lands in its portfolio — both the lands that will be transferred to third parties and the lands that will remain under its custodial care. These approaches reflect the mandates and responsibilities of the departments. Indian and Northern Affairs is discharging its fiduciary responsibilities

over lands for which it is accountable, and has also taken a systematic approach to identifying environmental issues that may impact on Aboriginal peoples residing on reserve lands. It appears to be focussed on both liability and health and safety issues. National Defence is primarily focussed on identifying the attendant liabilities associated with the facilities it is transferring and those it is using.

22.56 Some focus on individual transactions. Prior to 1994, the Airports Group of Transport Canada undertook site investigations at suspected contaminated sites identified by site and regional managers. In 1994 the National Airports Policy was announced, which shifted Transport Canada's focus to the environmental issues associated with facility divestiture. Since 1994, Transport Canada has taken a largely transaction-based approach to applying due diligence to its portfolio. What this means in practice is that it focusses on conducting baseline studies of properties that third parties have indicated an interest in acquiring. This reflects national policies for airports, harbours and ports that focus on divestiture of federal lands and operations. Transport Canada has yet to develop a formal contaminated sites management program for its residual portfolio. There is a need to do formal risk assessments where contamination exists and to plan a least-cost remediation

What constitutes due diligence for a dwindling portfolio of land?

program. Transport Canada has yet to complete the development of a comprehensive, consistent and up-to-date database of its contaminated sites. The still-unresolved issue for Transport Canada is “how to be duly diligent for a dwindling portfolio of land”. In our opinion, the government as a whole needs to take a more balanced approach.

22.57 What constitutes due diligence over federal lands? The issue raised by the different approaches these three departments have taken is, “What constitutes adequate due diligence for federal lands, particularly when the federal role in operating major national assets such as airports is changing?” A related issue is, “Due diligence according to which set of standards and jurisdictional regulations?” Should they be federal, provincial and/or local regulatory requirements? In our view, these issues need to be resolved. Custodial departments and property managers need to know what the government expects of them in exercising due diligence for their portfolios of lands, including lands subject to long-term leases to third parties. What is not clear to custodial departments and to this Office is which organization will be accountable for establishing these standards.

22.58 The government should define the minimum standards of due diligence expected of custodial departments, including the extent to which custodial departments should meet the environmental and health standards of provincial and local jurisdictions.

Building a More Consistent Federal Approach

22.59 We reviewed the practices for liability management developed by the three custodial departments we audited. Our objective was to identify sound

departmental practices that could be used to build a more coherent federal approach. Our methodology involved a comparison of best practices with current departmental practices, recognizing that the operating constraints of both the federal government and individual departments are unique.

Comparison of current practice with best practice

22.60 This section positions the three departments we audited against the nine elements of best practice, as shown in Exhibit 22.5. Our focus was on cost estimation and reporting practices.

22.61 Environmental liability assessments. We expected to find common protocols that would ensure consistency across a decentralized departmental portfolio. National Defence has a robust framework for evaluating contaminated sites that requires consistency across its portfolio. Transport Canada has developed a sound framework that is applied to airports slated for divestiture.

22.62 In contrast to National Defence, Indian and Northern Affairs (Southern Program) faces unique challenges in ensuring consistency, given the decentralized management structure of the Department. As well, there is a wide diversity of professionals involved in actually conducting the liability assessments. Some are conducted by departmental staff, others have been contracted out to Public Works and Government Services Canada and private sector environmental engineers, while some have been conducted by First Nations. We were looking for common terms of reference and procedures, similar to what we had found in the other two departments, that could be given to consultants or First Nations conducting environmental liability assessments. The objective of providing these procedures would be to ensure consistency and

comparability in liability estimates. At the time of our audit, the Southern Program's guidelines allowed for more flexibility, due to the decentralized nature of the Program. These guidelines were more general in nature than those we found in the other two departments. As a result, we noted the potential for a higher variability among cost estimates in the liability assessments we examined. Obviously, this is not desirable for improving consistency and comparability.

22.63 Cost estimation. In our limited sample of 15 environmental liability assessments prepared by the three departments we examined, we found that most contained either estimates or information sufficient for the development of reasonable cost estimates. This cost information could be used for management purposes, such as budgeting or establishing clean-up priorities.

22.64 We noted some variability in cost estimates between and among the three departments. For example, National Defence imposes penalties on consultants for failing to accurately estimate remedial costs for its active bases. This tends to result in more conservative estimates. Cost estimates for DEW Line sites are largely based on a risk-based environmental management approach. Baseline studies conducted for the Airports Group of Transport Canada involve a comprehensive cost evaluation process, requiring estimates for the applicable remedial options ranging from full clean-up to risk management. By comparison, the cost estimates we examined for the Harbours and Ports Directorate were not as comprehensive. At Indian and Northern Affairs, the number of different players involved in conducting assessments contributes to the variability in the assumptions used to estimate costs. In part, we also attributed this overall variability to the lack of comprehensive

environmental policies, as well as the lack of a common government-wide definition of a contaminated site.

22.65 Early cost estimates for the portfolio. We found that, with the exception of National Defence's practice for decommissioned bases and the DEW Line sites, procedures to estimate the potential clean-up costs on a portfolio basis have yet to be fully developed and implemented. The active bases component at National Defence as well as the two other departments have developed very preliminary estimates that have not yet been updated on a consolidated basis with detailed cost information obtained on a site-by-site basis. This would normally be done after the results of the detailed site investigations are available. Sound information generated on a site-by-site basis needs to be consolidated at a departmental level, and used to update cost estimates for the portfolio. Departments need to ensure that they are provided with tighter estimates so that the government can better estimate its liabilities and better allocate its funds.

22.66 Periodic reporting. National Defence is developing a comprehensive information flow that consolidates site-specific information, rolls it up at a corporate level and provides it to senior management on a regular basis. Indian and Northern Affairs is moving in the right direction with its management reporting and has many of the required elements in place or under development. Transport Canada's Airports Group reports on individual divestiture transactions and provides ample information on site and facility conditions. However, periodic reporting is not done for the balance of its portfolio. Departments stated that they had not been asked to provide summary-level information to, for example, the Bureau of Real Property and Materiel; currently there

A central framework is lacking.

Exhibit 22.5
Comparison of Current Practice with Best Practice

Component	Comparison of Current Practice with Best Practice							
	National Defence				Transport Canada			
	Active	Decom.	DEW	Airports	Harbours & Ports	North	South	Indian and Northern Affairs
Comprehensive Environmental Policy								
Identification and Definition of Contaminated Sites	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Data Collection Strategies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Liability Assessment	Yes	Yes (Early stages)	Yes	Yes	Yes (Divestitures)	Decentralized Approach	More Decentralized Approach	
Cost Estimation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Budgetary Management	Yes	N/A	N/A	Yes	No (Divestitures)	No	No	No
Public Consultation	Yes	Under Development	Yes	N/A	N/A (Divestitures)	Yes	Yes	Yes
Monitoring and Management of Residual Contamination	No	N/A	Yes	No	No	No	No	No
Periodic Reporting of Risks, Costs and Progress	Yes	Yes	Yes	No	No	No	Under Development	

Legend

- Yes — Meets best practice criteria
- No — Does not yet meet best practice criteria
- N/A — Not applicable

is no one organization asking for this consolidated information.

22.67 Missing in all three departments are procedures and practices to ensure that summary-level information is forwarded on a timely basis, or is accessible in a uniform format to a government-wide central custodian of the information. What is lacking is a requirement for departments to provide this information to a central custodian. Currently the Bureau of Real Property and Materiel updates central records for individual properties, as and when departments provide data.

22.68 Monitoring and management of residual contamination. Our best practices model identified the need for long-term maintenance and monitoring plans, supported by mandatory registration of restrictions on land use associated with residual environmental contamination. The purpose of such registrations is to ensure that a site with residual contamination is not inadvertently used at a later date, for example, for a school or housing development. In our review of 15 liability assessments as well as departmental policies, we found increasing reliance on risk-based environmental management approaches. When reviewing these assessments, we did not find evidence that “how, when and who would ultimately discharge the long-term liability” had been considered. The government has yet to define how, when and who will ultimately discharge some of these long-term liabilities. We were advised that practitioners need more guidance on when and how to use risk management.

22.69 We concluded that there was a need for practical guidance in the following areas: What approach to managing or eliminating predefined types of environmental risks does the government expect of its real property managers? Under what conditions should

departments be using a risk-based environmental management approach? What kind of monitoring and management of residual contamination should be in place, and for how long? Will a good risk-based environmental management solution ensure compliance with applicable federal or provincial legislation?

22.70 We noted that Environment Canada, through the National Contaminated Sites Remediation Program, has developed guidelines on risk assessment procedures. These tools were developed by provincial agencies, Environment Canada and Health Canada, with Environment Canada having responsibility for ecological risk issues and Health Canada dealing with human health risk issues. What is needed is practical guidance on how to apply these tools. In our opinion, Environment Canada is well positioned to provide leadership in the area of ecological risk assessment. Obviously, given the multidisciplinary nature of the issues, a collaborative effort will be required to provide guidance to custodial departments..

22.71 The government should provide guidance on the circumstances that would justify a risk-based environmental management approach as a substitute for remediation of contaminated sites. Where risk-based environmental management is considered, guidance should cover such things as the long-term monitoring for residual contamination as well as what constitutes acceptable risk.

22.72 A solid foundation exists to build a more consistent federal approach. Based on our comparison of best practices with current practices, we concluded that, collectively, the three departments have developed many of the sound practices that could be used to build a more consistent and coherent federal

Many of the elements of a suitable program are currently used by one or more of the departments we reviewed.

approach to the management of contaminated sites. Many of the elements of a suitable program are currently used by one or more of the departments we reviewed. Accordingly, we concluded it should not be necessary to develop and impose a new process that would significantly add to the overall burden of custodial departments. Rather, what is needed is a central framework to pull all the elements together and to ensure an appropriate level of consistency and comparability across government departments. What remained unclear to custodial departments and to this Office at the conclusion of our audit was who would be accountable for providing the central leadership required for this.

22.73 The government should develop a consistent, coherent and comprehensive federal approach to its contaminated sites, building on the sound practices already developed by some custodial departments and the work being done by interdepartmental working groups.

Indian and Northern Affairs Canada's response: The Department agrees with the contents and recommendations of Chapter 22.

Indian and Inuit Affairs Program (IIAP) — In 1992, IIAP initiated the Environmental Issues Inventory and Remediation Plan. This multi-phased project is aimed at identifying, documenting and remediating, where necessary, environmental problems on over 800 reserves. On the completion of the project, 31 March 1997, IIAP will be able to identify and estimate the cost of the remaining remediation requirements, timeframes and techniques to be used in addressing them and to have a good assessment of liabilities on the remaining contaminated sites on reserve lands.

Northern Affairs Program (NAP) — We agree that a more co-ordinated effort by government as a whole is needed. The Department is working toward that goal by participating in the Contaminated Sites Management Working Group mentioned in the chapter. NAP is completing site investigations and assessments (phase 2) and assessing remediation alternatives (phase 3). This work will be completed by the end of this fiscal year, including detailed reporting of liabilities and remediation plans. NAP is taking the lead, with the Contaminated Sites Management Working Group, in developing a policy for the management of its northern waste and contaminated sites.

National Defence's response: The Department of National Defence generally concurs with the content and positive tone of this chapter. It is our view, however, that the two "No" responses attributed to DND in Exhibit 22.5 do not fully reflect the considerable progress made within this Department in managing contaminated sites.

Better Reporting of Costs and Liabilities Is Feasible

Management will likely have to book its best estimate

22.74 What is an environmental liability? The key issues for the accounting profession are the definition of an environmental liability, how to estimate it and, ultimately, how best to communicate this information to users of financial statements. The basic options are to record an actual liability, or debt, in the organization's books and/or to disclose a potential future debt in the notes to the organization's financial statements. For the government, these distinctions are not merely academic. Whereas a potential, or contingent, liability generally resides in the notes, a recorded liability directly affects the annual deficit or the accumulated federal deficit.

22.75 In 1991–92, the government first disclosed environmental liabilities in the Public Accounts of Canada. The main message was that environmental obligations may exist, but could not be determined at that time. This disclosure remained essentially unchanged until 1994–95, when the government for the first time included some potential estimates in its note on environmental liabilities. The government's note disclosed that "some estimates place the federal share at \$2,800 million," representing \$2,000 million for federal contaminated sites and \$800 million for radioactive waste. This is a very preliminary estimate based on incomplete information, an admittedly soft number.

22.76 Emerging accounting trends will likely require the recording of management's best estimate. In December 1995, the Canadian Institute of Chartered Accountants (CICA) released an exposure draft, "Environmental Costs and Liabilities". The main message in this draft with particular relevance to federal contaminated sites is that, depending on management's intent, environmental costs charged to income should represent management's best estimate and should include the full amount of environmental costs existing at year-end. A reasonable estimate of the full environmental costs is required; zero is no longer adequate. While the accounting rules for private sector companies do not automatically apply to the government, they do indicate the general direction in which standard setters are moving. The key issue for the government is how well it is positioned to respond to these potential new reporting trends. Resolution of this issue is timely in that the government now proposes to record its land and buildings in its statement of assets and liabilities, rather than to treat them as expenditures in the

year the assets are acquired. Once these assets appear in that statement, any corresponding environmental liabilities also need to be reported.

22.77 Our concern is that when an accounting standard for reporting environmental costs and liabilities is promulgated by the Canadian Institute of Chartered Accountants, the government may not be in position to address its requirements fully if it does not act now. Based on the work reported in this chapter, we believe that at least two of the three departments we reviewed could provide the government with reasonable estimates of potential environmental liabilities to produce a consolidated number within the next two years, *if* they receive adequate practical guidance on what is expected of them. We recognize that other departments may not be as far along. The Treasury Board Secretariat could take a "progressive", or graduated, approach to establishing a realistic timetable. This would reflect the uneven progress among custodial departments in developing databases on their contaminated sites.

22.78 The Treasury Board Secretariat's Financial and Information Management Branch should provide the central leadership necessary to translate the government's policy on its contaminated sites into an accounting policy that defines a contaminated site and an environmental liability, and sets out when and how such liabilities should be recorded and reported in the Public Accounts.

Treasury Board Secretariat's response:
The government agrees that it is the responsibility of the Treasury Board Secretariat to develop the necessary accounting policy that defines an environmental liability and provides guidelines for costing and reporting them

Central policy leadership is required now.

Some progress has
been made.

in the Public Accounts. Secretariat staff are currently researching and studying the issue in consultation with a number of government departments that will be directly affected. Because of evolving public policy, legislation and regulation at various levels of government in Canada, the Secretariat does not expect to issue and implement a policy before the 1998–99 fiscal year.

Conclusion

22.79 Departments are starting to move in the right direction. Our overall interpretation of the results of the questionnaire and our detailed work in the three principal custodial departments we reviewed is that some progress has been made in the past five years. However, it is often uneven within departments and decidedly uneven among departments. Some departments are at the early stages of getting a realistic grasp of the contaminated sites in their portfolios; others have gained considerable technical experience. Clearly, there are opportunities to share the better practices developed by the more advanced departments. Whereas five years ago program managers reported they were overwhelmed by the task of setting up a comprehensive database on their contaminated sites, now some of the more experienced departments have begun to establish information systems that can isolate problem areas more easily.

22.80 The need for sustained support and commitment. Contaminated sites are a long-term problem that will require long-term solutions. Sustained commitment to the task of identifying, assessing and remediating federal contaminated sites will be required to fully discharge the government's due diligence requirements. Interdepartmental working groups, such as the Contaminated Sites Management Working Group, can

contribute to shaping a cohesive, coherent and consistent federal approach to dealing with the government's contaminated land. But there are some fundamental policy issues that need to be resolved as soon as possible. The still-unresolved dilemma for the government is how to ensure consistency and coherence without creating new central structures. In our opinion, resolving this dilemma is an integral part of putting the federal environmental house in order, as well as developing and implementing policies and practices consistent with the principles of sustainable development, as articulated in *A Guide to Green Government*.

22.81 Now that departments are accountable for preparing sustainable development strategies and action plans, they will require a realistic grasp of the legacy issues associated with their portfolios of land. As illustrated in this chapter, many departments have yet to develop the required databases to report meaningfully on their progress in dealing with the risks posed to health, safety and the environment by their contaminated sites. These databases will be an integral part of departmental sustainable development strategies and action plans for departments with contaminated sites in their inventories of land.

22.82 As in the past, this Office will continue to work closely with interdepartmental groups addressing common issues associated with the implementation of environmental management systems. The Office believes it can add value both by continuing to provide information to Parliament on these important endeavours and by supporting the government in its transition to the policies and practices most compatible with the principles of sustainable development.



About the Audit

Past audits have noted the inadequacy of information on the environmental costs and liabilities associated with federal contaminated sites. For example, Chapter 2, *Environment Canada: Managing the Legacy of Hazardous Wastes* (May 1995) reported that the inventory of contaminated federal sites was not complete. It also reported that the costs for clean-up of federal contaminated sites could be significant. The government responded that the cost to the government of these commitments was not determinable at the time of the audit. Chapter 2 did not address the progress of custodial departments in assessing, measuring and prioritizing the possible clean-up costs of their contaminated sites.

In the fall of 1995, in our observations on the summary financial statements of the Government of Canada, the Office expressed concern about the quality of information on environmental costs and liabilities. A question the Office wanted resolved was the practical feasibility of improving the quality of this information over time.

Objective

The primary objective of this audit was to assess the adequacy of management information on the environmental costs and liabilities available in custodial departments with responsibilities for federal contaminated sites. There were three secondary audit objectives: first, identifying best practices for estimating, measuring and internally reporting environmental costs and liabilities; second, assessing the adequacy of departmental information on contaminated sites to assist in the preparation of sustainable development strategies and action plans; and third, determining the feasibility of a more complete accounting in the Public Accounts of Canada for the federal government's environmental liabilities and contingencies over the longer term.

Scope and Approach

This audit examined central leadership provided by the Bureau of Real Property and Materiel and the Financial and Information Management Branch at the Treasury Board Secretariat, the Hazardous Waste Branch at Environment Canada and the Contaminated Sites Management Working Group. Detailed audit work was conducted at National Defence, Transport Canada (excluding the Air Navigation Group) and Indian and Northern Affairs Canada. This work involved a review of policies and procedures, supplemented by a review of 15 liability assessments. The objective of these reviews was to see if the assessments had been done in compliance with departmental policies. The scope of our work excluded Crown corporations and environmental issues relating to radioactive waste. A questionnaire was sent out to Working Group members, as well as other departments with significant land portfolios. We have summarized the results of the questionnaire but, with the exception of the three departments where we performed detailed work, the responses were not subjected to audit scrutiny.

Criteria

We expected that the government would develop a cohesive vision of how its contaminated sites should be assessed and managed, one that would be compatible with its decision to delegate responsibility to custodial departments. We expected that the government would have developed a central, high-level policy framework for dealing with its contaminated sites. It would have also developed and promulgated common reporting conventions. We expected that the Bureau of Real Property and Materiel and the Hazardous Waste Branch would have translated this central, high-level policy framework into practical guidance to be available for custodial departments in identifying, assessing and analyzing the options and the environmental costs associated with the different options. We expected the Financial and Information Management Branch to provide guidance to custodial departments on the recognition and reporting of environmental liabilities. Within custodial departments, we expected that departments would develop consistent principles, practices and standards for conducting environmental liability assessments; estimating environmental costs and liabilities; preparing comparable management information; and setting priorities for further assessment or remediation of their contaminated sites. We expected that there would be periodic consolidation and reporting of departmental summary-level information on environmental risks, costs and liabilities.

Audit Team

Robert Beaudin
Margaret Cross
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For information, please contact Wayne Cluskey or Dan Rubenstein, the responsible auditors.

Contaminant: Any physical, chemical, biological or radiological substance in air, soil or water that has an adverse effect.

Contingent liability: An obligation that may arise depending on the resolution of a contingency. A contingency is an existing condition or situation involving uncertainty about possible gain or loss to an individual or organization that will ultimately be resolved when one or more future events occur or fail to occur.

Due diligence: In an environmental context, the concept in law that activities are undertaken with the attention and care legally required or generally expected to avoid or prevent contamination or environmental liabilities.

Environmental audit: A systematic study of the environmental condition or performance of an operation to obtain and evaluate objective information regarding that performance and communicate it to appropriate parties.

Environmental liability assessment: An examination of the environmental condition of a site with specific focus on its potential to represent a significant liability due to its environmental condition.

High-risk contaminated site: A site that poses an existing or imminent threat to human health or the environment by virtue of the toxicity of its contaminants, the lack of their containment or its proximity to human habitats and sensitive environments.

Liability: Amounts expected to require settlement in the future as a result of events and transactions that occurred prior to the accounting date, or obligations for future delivery of goods or services for which payment has already been received.

Remediation: The management of a contaminated site to prevent, minimize or mitigate damage to human health or the environment. Remediation options may include, but are not limited to, direct physical actions such as treatment, removal or destruction of contaminants, or other on-site risk management measures such as capping or containment of contaminants.

Risk assessment: A procedure designed to determine the quantitative aspects of hazard identification and usually a quantitative determination of the level of risk based on deterministic or probabilistic techniques.

Risk-based environmental management: A cost-effective alternative to full-scale *default*-criteria-based site clean-up, permitting safe, ongoing use of properties or facilities that exhibit residual contamination or other environmental liabilities, for a particular purpose by a given population and based on the results of site-specific risk assessment studies. The objective of the technique is to control exposure pathways with remedial technologies to reduce the source term and/or with engineered solutions to isolate critical receivers from the source of exposure, where necessary.

Source: Generally Accepted Standards for Environment Investigations, Consulting Engineers of Ontario, April 1993; Terminology for Accountants, Canadian Institute of Chartered Accountants, other sources.

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Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 23
Materiel Management
in the Federal Government

November 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 23
Materiel Management
in the Federal Government



November 1996

This November 1996 Report comprises 19 chapters, including “Matters of Special Importance”, as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients’ needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

Chapter 23

Materiel Management in the Federal Government

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Materiel Management in the Federal Government

Assistant Auditor General: Shahid Minto

Responsible Auditor: Reno Cyr

Main Points

23.1 The government estimates that more than 17,000 employees are involved in materiel management. They have a direct impact on purchases of more than \$10 billion worth of goods and services annually and on the management of government materiel holdings estimated at more than \$50 billion. The government also conservatively estimates that it holds between \$8 billion and \$10 billion worth of materiel in warehouses, costing between \$2 billion and \$2.5 billion per year to maintain.

23.2 Since 1980 we have identified significant deficiencies in the government's materiel management practices. This audit has confirmed that many of these deficiencies still exist.

23.3 Departmental information systems for managing materiel are generally inadequate. Key deficiencies are the variety and incompatibility of systems, the lack of cost and performance information, and the inadequacy of essential records to safeguard and control public property. The consequence of inadequate cost information is that not all relevant materiel costs, including inventory holding costs, are considered when making purchasing and inventory decisions. This has resulted in poor value for money and excess inventory. A 1996 National Defence study estimated that \$1.7 billion of the total inventory of \$8.55 billion in that department alone was excess to the total usage projected for the next four years.

23.4 We believe the Treasury Board Secretariat does not have all of the information it needs to fulfill its role in monitoring and providing leadership to departments. In our opinion, the essential elements of an effective accountability relationship are missing in the policy and management frameworks for materiel management in departments.

23.5 The use of the Crown Assets Distribution Directorate, a unit of Public Works and Government Services Canada, remains mandatory for the disposal of surplus assets, despite the government's 1992 initiatives to improve the process by allowing departments to use optional methods of disposal. We have identified several examples where departments have done so and obtained higher revenues, more quickly and at less cost.

23.6 Most departments have only recently recognized that there are problems with their materiel management practices and, due in part to reduced resources, have begun to make extensive changes to remedy the deficiencies of the past. A 1995 Treasury Board Secretariat study estimated that, based on certain assumptions, the potential annual cost savings from eliminating unnecessary inventory could reach \$1.25 billion. We noted many departmental initiatives that may have reduced the amount of excess inventory since 1995, but significant potential for savings remains. We are encouraged by the scope and direction of the many departmental initiatives under way. However, it would be too early to attempt to judge their ultimate effectiveness, and we remain concerned about whether these initiatives will be implemented as planned and will achieve their intended goals. If departments do not succeed, hundreds of millions of dollars will be at risk.

Introduction

23.7 The term “materiel”, as used in the Government of Canada, refers to all moveable public property and all assets other than money and real property. It encompasses a broad range of items, from pencils and paper to ships and aircraft. The term “materiel management” includes all activities necessary to acquire, hold, use and dispose of materiel, and includes the notion of achieving the greatest possible efficiency. Many of the materiel management information systems in departments are also called “asset management” systems; the terms are used interchangeably in this chapter.

23.8 The government estimates that more than 17,000 employees are involved in materiel management. They have a direct impact on purchases of more than \$10 billion worth of goods and services annually and on the management of government materiel holdings estimated at more than \$50 billion. We have calculated the total cost of materiel acquired by the Government of Canada in 1994–95 at approximately \$8 billion. Spending by the departments included in our audit was as follows: National Defence, \$4.2 billion; RCMP, \$231 million; Fisheries and Oceans (excluding Coast Guard), \$133 million; and Natural Resources Canada, \$84 million.

23.9 The government has estimated that it holds between \$8 billion and \$10 billion worth of materiel in warehouses. Based on an estimated yearly carrying cost of 25 percent of the purchase price, the cost to the government to maintain these holdings has been estimated at between \$2 billion and \$2.5 billion per year. In a recent inventory rationalization study draft report, National Defence calculated that its inventory had a value of approximately \$8.5 billion and a

direct annual inventory management cost of \$567 million (excluding financing and other costs).

The government’s policy framework for management of materiel

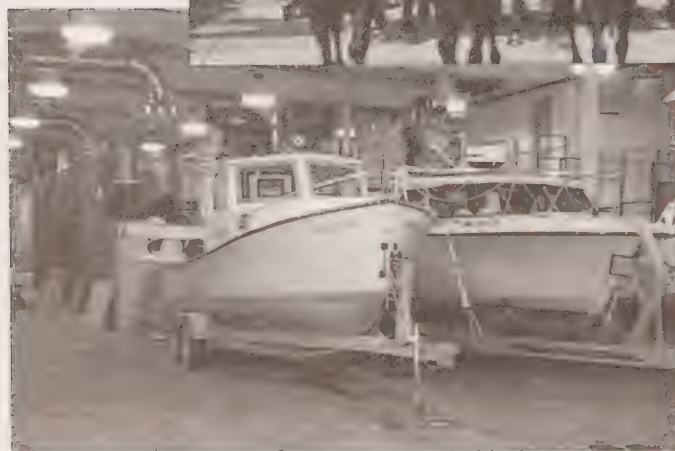
23.10 Departments acquire and manage materiel to support their operational requirements to deliver programs. These program requirements represent a broad range of operating environments. National Defence needs weapons, clothing, vehicles, aircraft, ships and sophisticated electronic equipment for peacekeeping, search and rescue, aid to the civil power and defence. The Royal Canadian Mounted Police needs uniforms, weapons, patrol cars and aircraft. Natural Resources Canada needs scientific equipment, computers, electronic instruments and field equipment for research on Canada’s natural resources. The Department of Fisheries and Oceans (now including the Canadian Coast Guard) needs a variety of specialized ships and equipment to support its Icebreaking, Rescue and Environmental Response, Navigation Aids and Waterways, Science, and Fisheries Management programs.

23.11 The Treasury Board Secretariat has implemented a new expenditure planning and management system that provides for a strategic focus on departmental management of all resources, including materiel. The policy framework allows departments and agencies to be innovative and adapt quickly and easily to changing circumstances and opportunities for achieving the best value for taxpayer dollars. The role of the Treasury Board includes leading the reform of administrative processes and systems across departments; the Secretariat supports the Board by promoting innovation and best practices and, together

The government holds between \$8 billion and \$10 billion of materiel in warehouses.



*Materiel is used to support
operational requirements
(see paragraph 23.10).*



with departments, developing effective accountability mechanisms.

23.12 The government has developed a strategy for the management of materiel that focusses on the following priorities:

- using materiel effectively;
- increasing the line manager's role in materiel management;
- considering all costs in making decisions on inventories or disposal;
- improving responsiveness to program requirements rather than focussing on individual transactions and "before-the-fact" controls; and
- increasing emphasis on training and development in materiel management.

23.13 With this new focus and strategic priorities in mind, in 1991 the Treasury Board Secretariat made major revisions to its materiel management policy. The objective of the revised policy is to ensure that materiel meets departments' operational requirements for effective program delivery and that departments

achieve value for money in acquiring, using and disposing of materiel assets.

23.14 Exhibit 23.1 illustrates the phases and activities in the life cycle materiel management model that departments are to follow. Exhibit 23.2 sets out the broad division of responsibilities among the key players for managing the government's materiel.

Focus of our audit

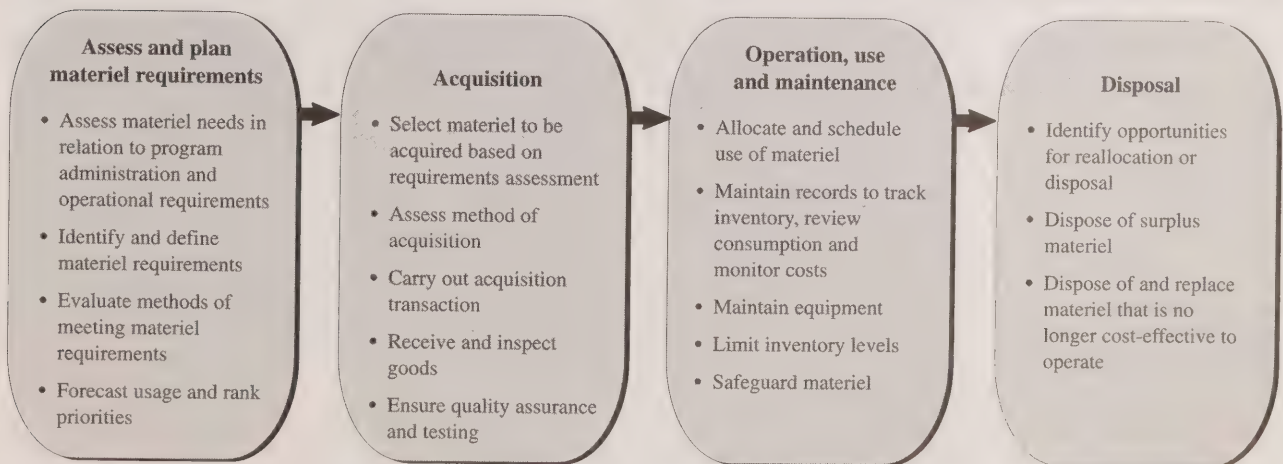
23.15 We audited the Treasury Board Secretariat's role in materiel management, and the materiel management practices of the Royal Canadian Mounted Police; Natural Resources Canada; the Department of National Defence, and the Department of Fisheries and Oceans, including the Canadian Coast Guard. These five organizations accounted for about 60 percent of the government's expenditures on materiel in 1994–95.

23.16 The Canadian Coast Guard, formerly with Transport Canada, was merged with Fisheries and Oceans in April 1995. The vessel fleets of the two organizations have now also been merged,

The government strategy for materiel management includes considering all costs in decisions on inventories and disposals.

Exhibit 23.1

Materiel Management Life Cycle Model



Source: Materiel Management volume of the Treasury Board Manual

We did not examine procurement in depth; this will be reported later.

and the combined fleet is managed by the Coast Guard Sector within Fisheries and Oceans. Because our audit started before the merger, some of our observations relate to the situation of the two organizations before the merger and others after the merger. Nevertheless, our observations are still valid and apply to future activities.

23.17 The observations and recommendations in this chapter apply only, but not necessarily equally, to the six organizations audited. While the observations and recommendations may be applicable to all departments, a broader application cannot be supported by our audit activities at this time. The Treasury Board Secretariat may wish to consider this matter in its review of our audit findings, and to include all departments in any resulting policy changes, as appropriate.

23.18 Our audit did not examine in depth the departmental and central agency activities in the procurement of materiel, as these will be included in an audit to be reported at a later date. Although we did not audit Public Works and Government Services Canada, there are references to the Department arising from our findings in the audited organizations, because of the Department's common services role in materiel management. Further details on audit objectives, criteria, scope and approach can be found at the end of the chapter in the section **About the Audit**.

Observations and Recommendations

Previous audits indicated poor value for money

23.19 Since our first government-wide audit of materiel management in 1980, we have audited various aspects of it in

Exhibit 23.2

Framework of Responsibilities for Materiel Management

Source: *Financial Administration Act, Public Works and Government Services Act, Surplus Crown Assets Act, Treasury Board Materiel Management and Contracting Policies, Treasury Board Secretariat Part III Estimates for 1996-97*

Treasury Board

- Make regulations for general administrative policy for the public service, including materiel management policy and contracting policy
- Review contracts for goods and provide approval to Public Works and Government Services Canada prior to its entry into contracts whose value exceeds limits prescribed by the Treasury Board

Treasury Board Secretariat

- Provide advice and recommendations on departmental plans, programs and proposals to increase the effectiveness of existing and proposed programs, and increase the efficiency with which resources (including materiel) are used in the operation of programs
- Monitor the implementation and effectiveness of the materiel management policy

Public Works and Government Services Canada

- Procure all goods exceeding authorities delegated to departments by the Minister of Public Works and Government Services
- Enter into contracts for the procurement of goods subject to Treasury Board regulations
- Dispose of all materiel that has been declared surplus by departments

Departments

- Acquire and manage materiel in a way that supports departmental operational and program requirements, in an economical and environmentally safe manner
- Manage departmental materiel resources consistent with the four-phase life cycle approach

several departments. Our findings indicated a lack of due regard to value for money in the government's materiel management practices, as evidenced by the following deficiencies:

- ineffective accountability;
- few incentives to manage materiel economically and efficiently;
- inadequate information for decision making;
- inadequate performance measurement;
- uneconomical acquisitions;
- lack of economy and efficiency in managing inventory; and
- too much inventory.

23.20 As detailed in subsequent sections, this audit has confirmed that many of these deficiencies still exist in the government's current materiel management practices.

Policy and Management Framework

Requirements for an effective accountability framework were not met

23.21 To succeed, we believe an accountability relationship needs the following five elements:

- clear roles and responsibilities;
- clear performance expectations;
- a balance of expectations with capacities;
- credible reporting; and
- reasonable review and adjustment.

23.22 We found that some of the key elements were lacking in the accountability relationships for materiel management. Within departments, due in

part to reorganizations, statements of roles and responsibilities were either out-of-date or not clearly articulated. In addition, little review of performance was done by either departments or the Treasury Board Secretariat and performance information was inadequate. All of this prevents the measurement of performance against expectations. Therefore, we concluded that effective accountability relationships for materiel management do not exist.

23.23 A department's policy and management framework needs to include its materiel management policies, their linkage with Treasury Board policies, and clearly established roles, responsibilities and accountability. In all organizations we audited, we noted deficiencies in the materiel management policy and accountability framework. In each case, policies and information on roles and responsibilities were out-of-date and did not fully reflect the current organizational realities.

23.24 However, major efforts are under way in the organizations we examined to revise and simplify policies and to clearly define roles, responsibilities and accountability for materiel management. Exhibit 23.3 provides more details. The Treasury Board Secretariat's 1996 inventory management task force also found that authorities, policies, procedures and practices were inconsistent and diffused and that there seemed to be a lack of real accountability at all levels. The task force recommended, and we agree, that a system of performance indicators and metrics be developed to facilitate reporting, visibility and best practices to increase accountability.

23.25 The Treasury Board Secretariat should identify what remedial measures are needed for an effective accountability framework for materiel

Many deficiencies first identified in 1980 still exist.

Major efforts are under way to revise and simplify policies.

management, and should ensure that these measures are carried out.

The Treasury Board Secretariat does not have all the information it needs to fulfill its responsibilities

23.26 The Treasury Board Secretariat is responsible for knowing and understanding the results and effects of Treasury Board policies and programs. This responsibility includes reviewing key policies and programs, and using performance information to recommend improvements to make them more cost-effective. The materiel management policy requires the Secretariat to monitor the implementation and effectiveness of the policy through analysis of relevant

departmental information, internal audits, program evaluations and periodic reviews.

23.27 The Bureau of Real Property and Materiel, a unit of the Treasury Board Secretariat, has access to departmental internal audit and program evaluation reports but does not monitor them systematically to identify problems with the materiel management policy or its implementation. Treasury Board Secretariat officials have advised us that this monitoring is not carried out because the departmental reports do not provide information they consider useful to address systemic issues; they prefer to address horizontal issues across departments through special audits and reviews.

Exhibit 23.3

Out-of-Date and Inadequate Policy and Management Framework in Departments

- Our audit findings were consistent with those of a National Defence study that found materiel management policy often out-of-date and contradictory, and duplication of effort and resources in numerous policy cells. As part of National Defence's re-engineering initiatives, the Red Tape Action Team has been formed, whose objective is to replace the existing policy structures with a completely redesigned and updated policy framework and to reduce the number of orders and directives by 50 percent to enhance overall departmental efficiency and consistency. The project was originally intended to be completed in two years. National Defence informs us that it has been successful in achieving part of its mandate – the design of a new policy generation process. However, the Department also informs us that due to overambitious objectives, the inherent difficulty of the task, and a reordering of project priorities, the 50 percent reduction of directives and procedures will take an additional 15 months to complete.
- Our audit found that there was inconsistency with respect to the degree of clarity of life cycle management principles reflected in RCMP policies. In 1995, senior management approved an initiative that would entail a total review of all RCMP policies within a two-year period. The purpose of the review is to eliminate unnecessary, non-value-added or duplicate policy structures that hinder effectiveness and accountability, and to update pertinent policies to reflect the new strategies relating to branch programs, with particular emphasis on the new accountability relationship with divisions.
- Prior to the merger of the Coast Guard with the Department of Fisheries and Oceans, the materiel management policy of the separate organizations was articulated by several vehicles. Following the April 1995 merger, the Department started a project titled Harmonization and Simplification of Policies. A review of the policy coverage of departmental policy manuals and Treasury Board manuals has been completed. However, direction to the merged organization has not been formally issued.
- Natural Resources has established an Asset Management Working Group, whose objectives are to establish a common set of user requirements that will form the basis for the departmental asset management system and policy, to clarify corporate and sectoral responsibilities for asset management, and to address issues surrounding the implementation of the departmental asset management system.

23.28 The Treasury Board Secretariat has conducted periodic reviews of materiel management activities in departments. For example:

- It commissioned a study on warehouse management practices in 1995, and in 1996 chaired the inventory management task force to address the findings of the study. This task force stated that materiel management services can be provided more effectively and efficiently and that the potential for cost-savings and performance enhancement is “enormous”.
- In 1994 the Secretariat published its Guide to the Review of Materiel Management. The guide provides a framework for conducting reviews of materiel management in the federal government by auditors, evaluators, materiel management specialists and program managers.
- It supported a number of pilot projects of departmental disposal initiatives and subsequently evaluated the results in 1993.

23.29 The combined inadequacies in departmental cost and performance information and departmental internal audits and evaluations lead us to conclude that the Secretariat does not have all the information it needs to discharge its responsibilities for materiel management.

23.30 The Treasury Board Secretariat should initiate means to ensure that it has adequate monitoring and performance information to discharge its responsibilities for materiel management.

Sharing information on best practices

23.31 We have been informed that the Treasury Board Secretariat has actively promoted the revival of the Materiel Management Institute, to serve as a focal point for addressing materiel management

issues. The Institute is a national, non-profit association open to all public service employees with materiel management responsibilities. Its primary objective is to link materiel management professionals across Canada and to develop a professional standard of materiel management performance in the federal public service. In co-operation with the Bureau of Real Property and Materiel, the Institute has sponsored workshops, lecture series and a quarterly journal to facilitate the exchange of ideas and best practices, and to promote a better understanding of issues, trends and developments.

23.32 However, our audit identified problems that cut across several or all of the organizations we audited. While the Secretariat has provided guidance in some areas, such as the Shared Systems Initiative, we found that some organizations with similar problems are addressing them separately. The Treasury Board Secretariat’s inventory management task force recommended establishing an interdepartmental system to disseminate information on best practices in supply and inventory management.

23.33 The Treasury Board Secretariat should further assist departments to develop common solutions to common materiel management problems and to share information on best practices.

Treasury Board Secretariat’s response:
The Treasury Board Secretariat recognizes the need to continue to improve the management of materiel in government.

As noted in the chapter, we have already initiated a number of projects in collaboration with other departments that are specifically designed to address many of the areas highlighted. Some have been under way for some time and are approaching implementation, while others, such as making more effective use

There is a need to develop common solutions to common materiel management problems and to share information on best practices.

Departments should have information systems that respond effectively to the needs of decision makers.

We found deficiencies in all organizations' information systems.

of the Internet, are still in their development stages.

Increased sharing of information and best practices, and greater use of technology as a key enabler, are essential elements of our renewal strategy. The Secretariat will continue to monitor the evolution of materiel management practices, and will encourage the development of networks among the materiel management community in both the private and public sectors. Our objective is to encourage sharing of information, development of a collaborative process for training and human resource development within the community, adoption of best practices and the use of enabling technologies.

Management information systems are inadequate

23.34 Treasury Board guidelines state that departments should have information systems that respond effectively to the needs of decision makers at corporate and field levels. Departments need information to ensure that materiel meets their operational requirements for effective program delivery and that value for money is achieved in acquiring, using and disposing of materiel. To fulfill these responsibilities, departments need management information at an appropriate level of aggregation and detail. They need criteria against which to analyze the information and measure performance to identify where improvements are necessary. In addition, Treasury Board guidelines state that departments' materiel management systems should be integrated fully with their corporate planning, budgeting and financial systems, and be interfaced with common service systems.

23.35 All of the organizations we examined have developed and are using computerized materiel management systems. However, most organizations have several systems in use, with differing

levels of functional capability and of capability to communicate with each other.

23.36 We found deficiencies in all the organizations' materiel management information systems, the most important being the inadequacy of cost and performance information. To make cost-effective decisions, managers need information on all relevant costs of operations, including materiel.

23.37 Treasury Board policy requires that the full cost of inventories be visible and distributed to the end user. Such information enables managers to compare the real net benefits of various options when making decisions. However, the organizations we examined do not charge all costs to users of materiel, who therefore consider inventory holding costs insignificant. The Treasury Board Secretariat's inventory management task force found that these pricing practices lead to a sense of false economy and to poor business practices. It recommended that the real cost of all goods and services be charged or at least made visible to responsibility centres and that inventory carrying costs be made visible to and recoverable from users.

23.38 National Defence has informed us that it recognizes cost information as a key component of the information that managers need to manage their operations; it has initiated the Cost-Visibility Project to provide them with more integrated cost information. The Department further recognizes a need to harmonize several diverse initiatives on which it has embarked, and has recently initiated a managerial accounting system, capable of supporting financial and managerial accounting, business planning and performance measurement.

23.39 Except for National Defence, no organization we examined had a

comprehensive, organization-wide asset and inventory management system accessible by headquarters and regions. Even in National Defence, the aggregate information provided by the Canadian Forces Supply System is deficient and a system upgrade project is under way. In other organizations, the absence of aggregate organization-wide information could result in one region buying an item when another region has excess or is disposing of an identical item as surplus. We note that all organizations have major

initiatives under way to develop information systems that respond to their needs. Exhibits 23.4 and 23.5 present detailed cases supporting these summary findings.

23.40 Departments should ensure that their materiel management systems are integrated with other departmental systems and that they provide reliable and timely cost and performance information to support decision making.

Cost and performance information is inadequate.

- The Treasury Board Secretariat has identified systems as the focal point for renewal because they can be used to provide new and innovative means of delivering high-quality, cost-effective client services. In 1993, the Secretariat did a review of existing materiel management systems in use in the government, and identified more than 30 systems. The Secretariat examined each system against various criteria and found no system that satisfied all of its expectations. It recommended the creation of a new shared system over the long term.
- To address deficiencies in its systems, the RCMP is a participant in the Integrated Financial and Materiel Management System. This is part of the Treasury Board Secretariat's Shared Systems Initiative, a joint activity with departments to streamline systems development and management and improve the effective use of information technology in government administration and service delivery. A number of organizations are participating, allowing them to develop a system that addresses their organizational needs while sharing development costs. This system is expected to be operational in some organizations in 1999.
- At Natural Resources there are five separate computerized materiel management information systems in use. While some systems are capable in theory of communicating with the main corporate system, in practice this capability has not been used for at least two years, resulting in incomplete asset information for corporate-level decision making. The materiel management systems are not integrated with each other or the financial systems. Natural Resources has established an Assets Management Working Group to address deficiencies in its materiel management information systems.
- Fisheries and Oceans operates many stand-alone materiel management systems onboard its ships. The Department's main materiel management system is not integrated with its financial system. There is no tracking of the life cycle costs of maintaining Fisheries and Oceans ships for annual maintenance, midlife refit and other major work.
- The Department of Fisheries and Oceans, Coast Guard operates many manual Cardex inventory systems and at least four computerized materiel management systems that are not able to communicate with each other. With the exception of one system, there is no capability to communicate among different regions using the same system. The Department is not able to quickly determine the type, quantity and value of materiel it owns, and thus lacks the information it needs to manage its assets corporate-wide.
- The merger of the Coast Guard with Fisheries and Oceans produces additional challenges to manage materiel as a corporate resource. The Department informs us that a materiel management system that includes both an asset and an inventory module and is integrated with the financial management system will be implemented in 1997-98. In addition, the Department informs us that the Coast Guard sector of Fisheries and Oceans is in the process of procuring an off-the-shelf maintenance information management system that will link with the above system.

Exhibit 23.4

Inadequate Management Information Systems

The government is introducing major accounting changes

23.41 Under the government's stated accounting policies, capital spending is currently treated as a budgetary expenditure at the time of acquisition or construction. Charging the full cost of assets in one year and nothing later in their useful lives does not accurately

reflect their part in the real cost of operating government programs.

23.42 The 1996 federal Budget announced the government's intention to begin the transition to full accrual accounting in 1997-98, including the capitalization of physical assets. The change to accrual accounting will enable the government to report annual costs of

Exhibit 23.5

Canadian Forces Supply System Upgrade Project Is at Risk

- The Canadian Forces Supply System is an electronic data processing system that supports supply operations within National Defence. Its purpose is to ensure that materiel is available when and where it is required. The system is based on 1960s systems architecture, technology and hard-to-maintain software. A departmental study found that information structures are rigid, limited in capacity and prone to error, making it very difficult, if not impossible, to extract information from the present databases in a form responsive to modern management information system requirements. The Department reports that performance measures and management information are inadequate and reporting is seldom timely enough to prove useful in decision making. The Department acknowledges that the electronic interfaces with other National Defence and Canadian Forces information systems are incomplete.
- An upgrade of the Canadian Forces Supply System to address its deficiencies was originally conceived in 1984. In response to our 1987 audit of National Defence, the Department stated that it recognized the importance and priority of an upgraded Canadian Forces Supply System, which was being developed and progressing as expeditiously as possible. Benefits were to be achieved through reducing inventories and providing more flexible operations with "just in time" deliveries. Total project costs were estimated at \$295 million. The main fixed-price contract was signed in January 1995 for \$150 million. Currently, the upgrade is scheduled to be fully operational by 1999. Virtually all of the changes being made by National Defence through its current renewal initiative are dependent on new information systems. This is especially important to materiel management where the supply system upgrade is intended to replace most of the existing systems, thereby addressing the inadequacies in performance measures and in cost and management information. If the system upgrade is late or deficient, it will impact on the success of the materiel management renewal initiatives. The dependency of the renewal initiatives on the supply system upgrade is not adequately reflected in the implementation plans for the renewal initiatives.
- We have reviewed the supply system upgrade project as part of our audit of systems under development. The upgrade project is in the second year of a four-year implementation schedule. Our assessment indicates significant risk for most aspects of project management and a high degree of risk overall. Management's analysis of the monthly performance figures showed rising costs and a slippage in schedule. Efforts were made to take corrective action. The trends in the data showed that the project would take twice as long and cost over \$100 million more than expected if the project were to continue to completion with productivity at the then-current level. However, the trends were showing productivity declining rather than staying constant. This indicated that the project would never be completed unless management took significant corrective action. At the time of our audit, project management was looking at alternative ways to meet the project objectives. Contingency plans have not been made to deal with the impact of deficiencies in the upgrade on the materiel management renewal initiative.
- National Defence informs us that as part of the re-engineering initiatives, a team is responsible for ensuring the co-ordination of identified materiel management information technology requirements with the two major materiel management information technology projects, the supply system upgrade and the Materiel Acquisition and Support Information System, and numerous other information technology initiatives under way or planned for materiel management.

programs more realistically, give better information to support decisions, and improve accountability. The government intends to achieve full accrual accounting by 2001–02.

23.43 The Treasury Board Secretariat has issued a proposed policy on accounting for capital assets and is currently examining departments' responses to it.

23.44 We commend the effort to include the capitalization of many of the items we have defined as materiel under the umbrella of the accrual accounting initiative. It is important to reiterate that capitalization of physical assets needs to be implemented at the departmental level, not just at the summary level. There are few compelling reasons to capitalize physical assets in the summary financial statements alone; the real benefits to the government of capitalizing physical assets are in improved departmental program management. We believe that this would be an important step in focussing on the issues surrounding appropriate inventory and materiel management.

Procurement

Not all relevant costs were considered in selected materiel acquisitions

23.45 Our audit did not examine in depth the departmental and central agency

activities in the procurement of materiel, as these will be included in an audit to be reported at a later date. However, we did identify a few selected instances where all relevant costs were not taken into account in materiel acquisitions (in the specialized area of ship repair and overhaul). In each case, consistent with departmental policy, the contract was awarded to the lowest bidder without taking into account the cost of getting the ship to the shipyard. The result was that best value was not achieved (see Exhibit 23.6).

23.46 An interdepartmental marine working group has recommended that the departments' additional costs of vessel fuel and crew transportation costs be factored into future consideration of contract bids.

Problems identified with the use of acquisition cards

23.47 Acquisition cards are used by departments to reduce and simplify procurement of low-cost items, primarily by replacing the use of local purchase orders and petty cash. The ease and flexibility of using the cards provides an incentive to purchase as the need arises rather than buying in bulk. The organizations we examined indicated that they believe acquisition cards are an

- In 1995 a contract for the docking and refit of a Dartmouth-based Coast Guard (Transport Canada) ship was awarded to a Newfoundland shipyard, which had underbid a Nova Scotia shipyard by \$71. The Department estimated that the additional departmental costs associated with awarding the contract to the Newfoundland shipyard (operating costs of sailing the ship to Newfoundland and crew transportation costs) exceeded \$30,000, well in excess of the \$71 saved in awarding the contract to the lowest bidder.
- In 1992 a contract for the drydocking and refit of a Dartmouth-based Coast Guard (Transport Canada) ship was awarded to a Newfoundland shipyard, which had underbid a Nova Scotia shipyard by \$407. The Department estimated that its additional costs associated with awarding the contract exceeded \$21,000.
- In 1993 a contract for the refit of a Newfoundland-based Coast Guard (Transport Canada) ship was awarded to a Nova Scotia shipyard, which had underbid a Newfoundland shipyard by \$28,071. Coast Guard (Transport Canada) estimated that it cost \$54,500 to send the ship to Nova Scotia.

Exhibit 23.6

Best Value Not Achieved in Materiel Acquisitions

efficient and effective tool, and they all plan to increase their use of the cards.

23.48 In 1991, the Treasury Board approved the use of acquisition cards for departmental procurement and payment of goods and services, where efficient, economical and operationally feasible. The policy requires departments to establish their own policies and procedures for ensuring that their use of the cards is economical, efficient and secure and, based on risk, to establish procedures outlining the extent of verification required.

23.49 In 1993, the Treasury Board conducted a government-wide evaluation of the use of acquisition cards in 66 departments and agencies. The evaluation reported a number of improvements in the payment process, including fewer cheque requisitions, simplified foreign supplier payment, streamlined account verification, and fewer petty cash replenishments. It noted improvements in the procurement process, including less paperwork and much faster service. The evaluation also identified a number of problems, such as lack of training, non-compliance with payment dates and non-payment of interest due, problems with suppliers' acceptance of the cards, and the time taken to reconcile acquisition card statements to departmental invoices.

23.50 The Treasury Board Secretariat informs us that it supports the use of acquisition cards because the results of a cost/benefit analysis from the perspective of financial transactions indicates that the benefits outweigh the costs and the risks. The Secretariat continues to work with departments to mitigate the risk factors identified.

23.51 We reviewed internal audit reports in two organizations, and selected transactions in several regions of three

organizations, to determine whether there were appropriate controls over the use of acquisition cards. This preliminary work indicated that controls for ensuring the validity of acquisition card charges and for post verification were not working as expected. For example, the acquisition cards were used for some purchases that were not authorized under the Treasury Board's acquisition card policy. We are currently conducting an audit of the use of credit cards in the government, and plan to report in 1997.

Inventory and Warehouse Management

23.52 After materiel has been procured, it must be managed efficiently to maximize its contribution to meeting program requirements. To protect government assets and fulfill program responsibilities, departments need accurate, complete and timely information on the quantity, cost and location of materiel in inventory. Departments must also analyze this information to calculate inventory holding costs, rates of use and other performance information to determine if they are holding the optimal levels of inventory. Too little inventory carries the risk of stock-outs and adverse effects on program operations; too much inventory carries with it annual holding costs of approximately 25 percent of the purchase price, and the risk of obsolescence.

Essential records need to be improved

23.53 Departments need to maintain essential records and apply rules and procedures to safeguard and control public property. They also need to systematically and periodically monitor the accuracy and completeness of their inventory records. All organizations we examined maintain records and have systems to safeguard and control public property. However, we have

Organizations' records ranged from well maintained to no records whatsoever.

concerns about the accuracy and completeness of the information contained in the systems of some organizations.

23.54 We found considerable variation in monitoring practices among organizations and among different sectors and regions within organizations. Organizations' records covered a whole range of possibilities, from records well maintained and verified for accuracy to no records whatsoever.

23.55 Exhibit 23.7 provides examples where essential records were not being maintained.

23.56 Departments should ensure that their records of materiel holdings are accurate and complete.

Too much inventory is being held

23.57 It is important that inventory be maintained at optimal levels for meeting service and program delivery requirements while recognizing the cost inherent in holding inventory. This may mean holding no inventory of certain items that are readily available commercially.

23.58 The Treasury Board Guide to the Review of Materiel Management states that materiel consumption, rates of use, level of materiel turnover, holding costs of inventory and other performance measures should be recorded, monitored and reviewed by departments. In every organization we examined we found little evidence that inventory holding costs

- We found that records for materiel and spare parts aboard Fisheries and Oceans ships were not well maintained. When allegations arose concerning the disappearance of provisions from a Fisheries and Oceans ship, the records lacked sufficient information to prove or disprove them.
- A 1995 Fisheries and Oceans internal audit found that the Department had no consensus on what to record in its inventory systems. There is also considerable variation in the verification practices within regions. Some regions have not performed physical counts in years, while other regions have an annual program. Some Fisheries and Oceans facilities maintain no information on what is stored at the location. For example, a section at the Bedford Institute of Oceanography provides space to store bulky items deemed by program managers to have a future use. However, no records are kept of these items. Over time, ownership has become unknown, potential uses have not materialized and the items have deteriorated (some items have trees and vegetation growing through them). The Department informs us that an independent review of all departmental inventory, including the Bedford Institute, is under way.
- There is considerable variation in verification practices onboard Fisheries and Oceans ships. Inventory verifications have been performed on some ships and not on others, while some ships have no inventory records to be verified. One region has developed an upgrade to the inventory management system that will provide detailed information on each ship's inventory, including the total value of all inventory in the region. The Department informs us that the four other regions have undertaken similar initiatives and regional consolidation of ships' inventory records is expected to be attained by the end of this fiscal year.
- A March 1989 Natural Resources internal audit of materiel management found a lack of verification of the accuracy of data in the asset management systems. Our audit found that while some sectors perform inventory verifications, others do not. Natural Resources has established an Assets Management Working Group to address the recording of assets.
- In our May 1996 audit of Peacekeeping – National Defence, we observed that some important Canadian Forces Supply System controls had broken down. We found a clear lack of inventory control over items sent to the mission in Somalia. Of 300 sea containers sent, many had to be opened to determine their contents due to the lack of proper identification. A departmental report observed that there was inadequate attention to inventory control. The Department informs us that the implementation of an automated bar coding tracking system is expected to prevent the recurrence of similar problems.

Exhibit 23.7

Essential Records Need to Be Improved

Most officials believed that they held too much inventory.

(which are significant — see Exhibit 23.8) and other performance measures are considered. Exhibit 23.9 provides illustrations of the need for good performance information.

23.59 We expected to see, but did not find, a systematic approach to determining optimal quantities and identifying surplus inventory. In some organizations, for some product lines, there is a well-planned and executed process for identifying and disposing of surplus assets, for example, RCMP vehicles. In some cases, there have been ad hoc reviews as a result of individual initiatives or events such as downsizing, moving of warehouses, budget cuts, changes in personnel, etc.

23.60 Most of the officials we interviewed at the beginning of our audit in 1995 said they believed that their organizations had too much inventory. They were holding excessive quantities of items that had to be stocked, and were stocking items that were commercially available and did not have to be stocked. One senior manager said, “If we build them [warehouses], they will fill them [with inventory].” Since the items had been paid for and little consideration is given to holding costs, there was little incentive to dispose of excess inventory.

Managers tended to keep surplus items “just in case” there was a future need.

23.61 There are a number of reasons why materiel could become surplus to departmental needs, including program changes, technological obsolescence and organizational restructuring. In such cases, managers need to decide whether it is better to sell the surplus, with the possibility of buying more in the future, or hold on to the surplus until it is used up. Such decisions need to take into account many factors, including the inventory holding costs, the resale value of the goods, and likely future costs and timing of acquisition.

23.62 Our audit did not attempt to estimate the value of the materiel in inventory or to determine the value of excess inventory. However, a study carried out for the Treasury Board Secretariat in 1995 estimated that, based on certain assumptions, the potential annual cost savings from eliminating unnecessary inventory could reach \$1.25 billion. We noted many departmental initiatives that may have reduced the amount of excess inventory since 1995, thereby affecting the study’s projection, but the estimate does provide an indication of the significance of the potential savings.

Exhibit 23.8

Inventory Holding Costs Are Significant

- Holding costs are the costs associated with holding inventory in anticipation of use. These costs include:
 - Costs of financing** — interest on the money invested in materiel
 - Space and facilities** — costs of building maintenance, repairs and operating
 - Handling** — costs of receiving, inspecting, placing into storage, picking from storage, maintaining accurate records and shipping
 - Shrinkage** — costs of materiel loss due to theft or unexplained disappearances
 - Write-offs and damage** — costs of obsolescence and repairing or replacing damaged goods
- The Treasury Board Secretariat has estimated (based on industrial standards) that annual holding costs are 25 percent of the purchase price. This estimate consists of the cost of financing (8 to 10 percent), space facilities and handling (12 to 14 percent), and shrinkage write-offs and damage (3 to 6 percent).

Source: Treasury Board Materiel Management Policy, Canadian Association of Logistics Management

23.63 In July 1996, a draft National Defence inventory rationalization study estimated that, of the Department's total inventory of \$8.55 billion, 20 percent or \$1.7 billion was excess to the total usage projected for the next four years.

23.64 Our audit found that the magnitude of overstocking varied with the organization. All of the organizations have initiatives under way to address the problem of holding excess inventory. Exhibit 23.10 provides examples of excess inventory; Exhibit 23.11 provides examples of initiatives intended to correct the situation.

23.65 The Treasury Board Secretariat conducted a study of inventory management practices in 1995 and subsequently chaired the inventory management task force to address that study's findings. The task force stated that

materiel management services can be provided more effectively and efficiently and that the potential for cost savings and performance enhancement is "enormous". We were advised that presentations were made by Treasury Board Secretariat officials to deputy ministerial and other senior-level committees, which have endorsed the recommendations of the task force.

23.66 Departments should have procedures in place to ensure a systematic, thorough and periodic review of their inventories to determine optimal quantities and identify surplus holdings.

23.67 Our audit has identified an innovative approach by Fisheries and Oceans to providing spare parts and technical support for components of the *Louis S. St. Laurent* icebreaker. Rather

All organizations have initiatives under way to address the problem of excess inventory.

- The Treasury Board Secretariat's inventory management task force recommended developing a system of performance indicators and metrics to facilitate reporting, visibility and best practices, to increase accountability.
- In National Defence, at the time of the audit, information systems were not collecting the type of information considered essential by private industry for operational planning in the depots. The new warehouse management information system in the supply depots should help correct the situation, provided it is used to its full potential. The Department informed us that in the fall of 1996 it would determine which performance indicators should be adopted to monitor the ongoing depot operations.
- The RCMP has inadequate data to manage operations at its kit and clothing stores in Ottawa. Insufficient data are being collected to accurately represent the workload involved in daily operations. The RCMP is examining the purchase of new software for a warehouse space optimization and location system. It informs us that incorporation of this system with the Integrated Financial and Materiel Management System referred to in Exhibit 23.4 is expected to provide a total warehouse management capability, including the provision of improved performance information.
- None of the materiel management information systems in Fisheries and Oceans record or report on inventory holding costs and, with one exception, they do not have the capability to regularly produce performance indicators. The Maritime region is developing an inventory management system that, when fully operational, will be able to provide performance indicators for use by decision makers in the region.
- We have been informed that the Coast Guard sector of Fisheries and Oceans' new maintenance management information system will address planning, scheduling and service cost as well as valuable information on life cycle, refit history and in-service maintenance costs. The system will provide information for advance ordering of parts, on utilization trends, on relocation of assets and on projected disposals. This system will link with the new financial and materiel management system to complement the corporate information and business requirements.

Exhibit 23.9

Need for Good Performance Information

than the traditional approach of purchasing spare parts and incurring holding costs to store them itself, the Department has entered into an agreement with a private sector firm to provide these services for a fee. This initiative has the potential to be beneficial to the Crown, and we will report on it in 1997.

National Defence supply depots are changing to address deficiencies

23.68 In 1992, the government decided that by 1997 it would consolidate the

Canadian Forces supply depots in Edmonton, Toronto, Montreal and Moncton into two depots in Montreal and Edmonton. In Montreal, a new warehouse was built to accommodate the consolidation of the Moncton and Toronto supply depots with the faster-moving items from the 12 original buildings of the Montreal depot. In Edmonton, the depot underwent \$6 million of improvements. In 1994, the decision was made to consolidate the depots by 1996. Senior departmental officials stated that the

Exhibit 23.10

Too Much Inventory Is Being Held

- The RCMP approach to forecasting demand needed to be improved. Isolated events that were not likely to recur but that caused peaks in demand were incorrectly treated as part of the historical database and this inappropriately influenced future forecasts of the required quantity of an item. For example, for the Canada 125 celebrations in 1992, there was a need for most RCMP police officers to update and have ready their formal dress uniforms, including formal dress hats. However, the system did not recognize that once officers had a complete uniform, there would be very little additional demand for a number of years. The system interpreted that the demand for hats was permanently elevated and reordered accordingly. The result is that 3,995 surplus hats are currently sitting in the warehouse, representing over three years' supply. The RCMP has recently improved its forecasting system. When a new style of belt was issued recently, to meet the demand the new system ordered only 495 belts, while the old system would have ordered 2,875 belts. Even after improving its forecasting system, the RCMP does not calculate optimal order quantities for its kit and clothing because current information systems do not contain the inventory holding costs on which to base those decisions.
- The information systems that record and monitor the inventory held aboard Fisheries and Oceans ships cannot communicate with each other. The absence of corporate-level information on inventories held at the ships means that the inventory essentially supports only the ship on which it is carried. In effect, this creates a number of low-usage, independent storage sites that may result in excess inventory being held when looked at on a department-wide basis.
- One region in Coast Guard (Transport Canada) had started making the spare parts inventory available to other ships and other regions. Over the last five years, savings from not having to purchase spare parts it already owns and is not using have been over \$16.8 million. For example, recently a ship was going to be out of service for 10 to 14 days due to a manufacturer's delay in getting spare parts to the ship. The ship inquired about the availability of the parts in the region. Through the use of the region's computer system, the parts were found, shipped and installed within 24 hours of initial contact. Savings in parts alone were estimated to be \$12,700. Fisheries and Oceans informs us that this practice continues today with the newly merged fleet.
- A functional review of a Fisheries and Oceans Coast Guard ship in November 1995 indicated that some items stocked were no longer used on the ship, and a large number of items inventoried had not moved in the past three years. As a result of the functional review, approximately 150 items were transferred from the ship to a Fisheries and Oceans warehouse.
- Efforts are under way in National Defence to eliminate the storage of commercially available goods. In 1995-96 the Department identified approximately 50,000 items (out of approximately 550,000 items) that will no longer be stocked at the depots and are now the responsibility of the bases. We have been advised that the Department also requires that bases not stock commercially available items (with certain exceptions) and that they increase direct delivery to users.

decision to close the Toronto and Moncton depots one year earlier than planned has contributed to consolidation problems but has also achieved substantial personnel savings a year sooner.

23.69 The Montreal depot has 600,000 square feet of floor space and 8.6 million cubic feet of storage capacity in the new warehouse, plus 12 other buildings with a total of 1.8 million square feet of floor

space. At the time of our audit, the depot handled about 400,000 different line items. The Edmonton facility has about 800,000 square feet of floor space and 5 million cubic feet of storage space. It handled approximately 300,000 different line items.

23.70 The new Montreal depot building was constructed by a private sector firm to National Defence specifications and

- Fisheries and Oceans has taken steps to reduce inventories by outsourcing the receiving, sorting, handling and distribution services for uniforms for 900 ship personnel and 1,000 fishery officers. This eliminated the need for the Department to warehouse the uniforms.
- In February 1996 Fisheries and Oceans commenced a department-wide inventory review project to reduce unnecessary inventories, avoid duplication, rationalize storage facilities and prepare for an integrated financial and materiel management system that includes both an assets and inventory module.
- The Coast Guard Sector of Fisheries and Oceans has initiated a project entitled Progressive Implementation of the Central Stores Systems. The objectives are to centralize and make visible inventory records, taking advantage as much as possible of the existing storage infrastructure; to avoid unnecessary expenses by internally requisitioning and transferring spare parts for immediate or future use aboard other departmental ships where feasible; and to have inventory records in good order.
- In June 1996 the Treasury Board approved a five-year, \$107 million contract with a supplier to provide National Defence with 157 various items of non-operational clothing, based on departmental estimates of its clothing requirements. The Department estimates its savings and cost avoidance alone at \$78 million over the five years. This contract is a departure from the Department's traditional process of contracting individually with a large number of suppliers; it consolidates the process under one supplier who provides the full range of supply services, including manufacturing, quality assurance, inventory management, warehousing, distribution, order taking, design and engineering support services, data management and reporting. Items will be ordered by National Defence bases and stations across Canada on an "as and when required" basis. We have been informed that the method of supply used for this program is being monitored by the Department for possible application to other commodities.
- National Defence is in the process of a major transformation of the Department, with materiel being just one component. A special task force, the Management Command and Control Re-engineering Team, was formed to rationalize National Defence Headquarters and the various command headquarters and reduce their staffing levels by up to 50 percent. The task force has since become the departmental umbrella for co-ordinating all the major re-engineering and renewal efforts, including personnel, command and base issues, and materiel. (See Chapter 34, National Defence-Support Productivity, for more details on National Defence's management of change).
- National Defence has established a team with the mandate to re-engineer Inventory Management and Control end-to-end without regard to current organizational structures. Its objectives are to improve service, to reduce inventory and to improve the distribution system. The conceptual design identified a number of savings opportunities and areas for efficiency gains: direct customer-vendor relationship resulting in lower base inventories and lower overhead at base level; single level of warehousing, which will reduce double handling and infrastructure; greater visibility of cost and performance effectiveness to allow benchmarking; and better integration of supply/transportation functions and information technology. The detailed design options were completed May 1996. The Department states that full implementation will occur from November 1996 to August 1998.

Exhibit 23.11

Initiatives in Inventory Management

National Defence has encountered difficulties in consolidating the Toronto and Moncton depots into the new Montreal facility.

leased to the Department at an annual cost of \$6.6 million. The lease gives the Government of Canada the option at specific intervals to purchase the building. In addition to the annual leasing costs, National Defence has budgeted one-time construction and fit-up costs totalling \$31.8 million.

23.71 National Defence has encountered difficulties in consolidating the inventory from the Toronto and Moncton depots into this new facility. The Department tried to calculate the total storage space requirements for the Montreal depot after consolidation, but was unable to because of the inadequate information available from the Canadian Forces Supply System (see Exhibit 23.5). The Department could not determine on the basis of that information what was obsolete and what would be surplus after consolidation.

23.72 In its planning, the Department assumed a new consolidated inventory requirement equal to 70 percent of that required to be held in the Toronto, Moncton and Montreal depots. This meant that 30 percent of the total inventory could, when moved to one location and when depot operations returned to normal after consolidation, be disposed of as obsolete or as surplus. We have seen no analysis that would validate this assumption about disposal. In a comparable private sector situation, detailed inventory rationalization would normally precede the planning of any new facility.

23.73 The Edmonton and Montreal depots were designed for a combination of long-term storage and regular distribution of inventory. This dual usage requires that items be placed in the appropriate locations for the most efficient operation of the facility. However, we found that movement or turnover of items is not

considered in determining the assigned storage locations in these facilities. Faster-moving items are not necessarily being stored in the most appropriate locations, resulting in longer travel times and an inefficient process for issuing inventory. The current warehouse management system does not have the information required to make the optimum storage decisions. The Department reports that this will be corrected later when the supply system is upgraded.

23.74 Furthermore, the materiel storage layout makes these supply depots unsuitable for items requiring a high turnover and fast response. While the Edmonton depot has some flexibility, the layout of the Montreal depot is relatively inflexible for adding personnel in peak periods. National Defence must be ready to respond at any time to an emergency situation. However, we believe the design of the depot facilities constrains its ability to do so:

23.75 The Department informs us that it plans a comprehensive assessment of the depot operations to look at optimizing work flow and resources.

23.76 At the depots, we observed extensive physical inspections of incoming commercial goods, a labour-intensive activity. In the private sector, random technical inspections are performed or supplier quality levels are established for all non-critical items. We were informed that at the time of our field work in February 1996, extra inspections were required to provide database information for the new warehouse management system. Once these items are entered into the database, the Department will follow its new policy (June 1996) on physical inspections, which should reduce substantially the number of inspections performed. The intent of the policy is that, given the costs and benefits of checking

all receipts from commercial suppliers, some commodities and some contractors warrant more attention than others.

Disposals

Alternative disposal mechanisms may result in higher net proceeds in certain cases

23.77 Government policy requires that departments dispose of surplus materiel. Revenues from the sale of materiel identified by departments as surplus and disposed of are in excess of \$40 million per year.

23.78 Currently, Treasury Board policy requires the Crown Assets Distribution Directorate, a unit of Public Works and Government Services Canada, to provide a mandatory common service for the disposal of surplus Crown assets held by departments and agencies. Departments receive the proceeds of disposals, less the associated costs and fees.

23.79 In 1992, amendments were made to the *Surplus Crown Assets Act* aimed at achieving better strategic management of materiel. The life cycle approach to materiel management would be encouraged by improving incentives for incorporating the disposal phase into the management process.

23.80 Specifically, amendments to the Act were made to allow departments to dispose of surplus Crown assets either through Public Works and Government Services or directly, subject to terms and conditions established by the Treasury Board; and to provide departments with the statutory authority to receive and spend the net proceeds from disposals.

23.81 In planning the implementation of the changes to the Act, the Treasury Board Secretariat proposed a limited number of pilot projects of surplus asset

disposals by departments. These pilot projects were to provide input to the development of Treasury Board terms and conditions to govern departmental disposal activities in the future, and to the development of guidelines to assist departments in improving the management of disposals. The pilot projects were also to identify key success factors and “best practices” associated with effective management of disposals by departments.

23.82 We did not audit the Crown Assets Distribution Directorate. Our audit examined whether alternative disposal mechanisms could achieve greater returns to the Crown in selected cases. We did not examine the issues of prudence and probity. Every organization we examined expressed concerns about the “value added” by the services of the Crown Assets Distribution Directorate. Officials also stated their belief that they could conduct selected disposals themselves more quickly at less cost, and achieve higher selling prices. Exhibit 23.12 presents specific cases that came to our attention, but the results cannot be extrapolated more generally. The exhibit also shows that even when low dollar values are involved and the Directorate’s services are limited, the departments must still pay its 30 percent commission.

23.83 In 1993 the Treasury Board Secretariat evaluated the disposal pilot projects and identified some positive results, including that assets could be disposed of more quickly; that revenues potentially could be increased by more than the additional cost by using “hands on” disposals; and that greater flexibility over disposals may allow departments to maximize benefits from each disposal.

23.84 However, there were limitations in the data available for the 1993 study. Public Works and Government Services

The 1992 legislative amendments allowed departments flexibility in disposing of surplus Crown assets.

We conclude that departments prefer to have the option of using alternative disposal mechanisms.

Canada informs us that it does not accept the conclusions of the Treasury Board Secretariat evaluation of the disposal pilot projects because of this data limitation.

23.85 At the time of our audit, the Crown Assets Distribution Directorate remained a mandatory common service. The Treasury Board Secretariat informs us that none of the organizations involved in the pilot disposals has withdrawn from the pilots in order to have the Directorate provide the disposal service. Therefore, we conclude that the departments prefer to have alternative disposal methods and to remain part of the pilot projects.

23.86 Under the government's Common Services Policy, the Treasury Board is required to review all mandatory common services and, if there is not an overriding reason to maintain their mandatory status, it will determine how the services can become optional in a cost-effective manner.

23.87 Public Works and Government Services Canada informs us that the government's Program Review exercise confirmed that the management of assets disposal in government by the Crown Assets Distribution Service will remain mandatory. The Program Review further concluded that alternative service delivery

Exhibit 23.12

Alternative Disposal Mechanisms Benefit Departments

- In 1993, Fisheries and Oceans undertook a motor vehicle disposal pilot project to compare private sector performance in the management of motor vehicle disposal with that of the Crown Assets Distribution Directorate. The study showed that the private sector company was able to get higher gross revenues at less cost and to generate higher net proceeds more quickly than the Directorate.
- The RCMP is dissatisfied with the lack of value added by the vehicle disposal services of the Crown Assets Distribution Directorate and the commissions charged. The existing disposal process involves having the Directorate function as the link with the auto auctioneer after the RCMP declares the vehicles surplus. The RCMP believes it could deal directly with the auctioneer and thereby avoid the commission costs of 30 percent. For example, a 1992 Ford Explorer was sold at auction for \$8,800, of which \$880 went to the auctioneer and \$2,376 went to the Crown Assets Distribution Centre as commission and direct costs.
- Periodically, the RCMP must dispose of some of its horses. For the period 1988–1993, the gross proceeds received by the Crown Assets Distribution Directorate averaged \$1,974 per horse. In 1993, the Treasury Board approved a request by the RCMP to dispose of its horses directly through the RCMP Foundation. Since then, the RCMP Foundation has received average gross proceeds of \$6,621 per horse. We have been informed that the RCMP incurred nominal additional but unquantified indirect costs in disposing of its horses. Nevertheless, the RCMP is satisfied that the additional revenues more than offset the additional costs and intends to continue using the Foundation in the future.
- Since 1993, the Coast Guard (Transport Canada) has directly sold two class 1200 icebreakers for a total of \$8 million. We have been informed that the Coast Guard incurred additional but unquantified costs in disposing of these ships. Nevertheless, the Coast Guard is satisfied that its costs are significantly less than the 30 percent (\$2.4 million) Crown Assets Distribution Directorate commission.
- When the Crown Assets Distribution Directorate sold a Coast Guard (Transport Canada) ship in 1995, Coast Guard headquarters became involved and escorted one bidder around the ship and answered detailed technical questions. The winning bid, which came from this firm, was about \$200,000, essentially double the next-highest bid. Coast Guard officials believe that their active role resulted in the higher bid.
- In 1995 Fisheries and Oceans Scotia Fundy sold some scrap metal for \$2,816. The purchaser gave a cheque to Fisheries and Oceans made out to the Crown Assets Distribution Centre, which charged the Department a commission of 30 percent to deposit the cheque and issue the Authority to Release Materiel Form.

options were to be explored with a view to identifying the most efficient way of delivering disposal operations.

23.88 The Treasury Board Secretariat and Public Works and Government Services Canada have recently agreed to study the cost of in-house disposal compared with outsourced disposal operations. The guiding principles will be as follows:

- The greater good of government requires that surplus Crown assets disposal be managed within a controlled framework.
- Departments must receive fair return on sales and should not be required to “cross subsidize” other departments’ disposal activities.
- Departments have to be provided with a choice as to disposal agent.

23.89 The Crown Assets Distribution Directorate informs us that it continues to improve its businesslike approach to serving its clients. It indicates that demand for its specialized services in normal disposals increased significantly as a result of the government’s Program Review. The Directorate has provided an example in which it consistently generated higher revenue in the sale of surplus government vehicles, in a specific region and using sealed bids, as compared with public auctions. The Directorate also indicates that it has been chosen to sell vessels by organizations not required to use its services. In one example, the Directorate states that it sold a vessel for considerably more than bids previously received by the client from commercial ship brokers.

23.90 Our review of selected disposal transactions and the Treasury Board Secretariat’s 1993 evaluation of the disposal pilots point to the need for a thorough analysis of existing disposal

operations in the government to determine if alternative disposal mechanisms could yield higher returns.

23.91 Within the period specified in the Program Review decision, the Treasury Board Secretariat and Public Works and Government Services Canada should resolve the issue of the mandatory common services requirement to use Public Works and Government Services Canada’s in-house disposal operations as the disposal agent for surplus Crown assets, and determine if alternative disposal mechanisms would bring greater returns. The decision should include an action plan for implementation and the monitoring of results.

Conclusion

Departments are taking action, but will the long-standing deficiencies be remedied?

23.92 Since 1980 we have identified significant deficiencies in materiel management practices. This audit has confirmed that many of these deficiencies still exist.

23.93 In the organizations we examined, we noted several attributes that they all shared:

- recognition by senior management that there are problems with the way materiel is managed;
- acceptance by all organizations, to varying degrees, that they need to change their materiel management practices; and
- a willingness to act.

23.94 Our audit has identified many departmental initiatives now under way. Some are stand-alone reforms to address specific deficiencies in materiel management, while others involve a complete re-engineering of the materiel management system.

There is a need for a thorough analysis of existing disposal operations.

23.95 It is too early to judge whether the departmental initiatives will be effective; their potential benefits may not be realized for some time. History has demonstrated that change of the magnitude now being attempted by departments is slow to take hold. **However, the potential for real and**

significant savings to the government in its materiel management practices makes it imperative that departments follow through with the changes they have begun. We will monitor the progress being made by the government to achieve these savings.



About the Audit

Objectives

The objectives of this audit were:

- to assess the adequacy of the policy and management frameworks for materiel management in the Treasury Board Secretariat and selected departments and agencies; and
- to determine if materiel management practices in the selected departments and agencies are consistent with managing materiel with due regard to economy and efficiency and consistent with established policy.

Scope

We audited the Treasury Board Secretariat's role in materiel management, and the materiel management practices within the following departments and agencies: Fisheries and Oceans Canada, including the Canadian Coast Guard; the Royal Canadian Mounted Police; Natural Resources Canada; and the Department of National Defence. The observations and recommendations in this chapter apply only, but not necessarily equally, to the six organizations audited. While the observations and recommendations may be applicable to all departments, a broader application cannot be supported by our audit activities at this time.

Within the broad range of materiel management, we did not include the management of major capital projects or fleet vehicles (which we reported in 1991) or commodities such as electricity, natural gas and water.

Our audit did not examine in depth the departmental and central agency activities in the procurement of materiel, or the disposal activities of the Crown Assets Distribution Directorate.

Specific information associated with the following areas is reported in the identified chapters:

- National Defence — Support Productivity, Chapter 34
- Systems under Development — Getting Results, Chapter 24
- Renewing Government Services Using Information Technology, Chapter 16 (September 1996)

Our conclusions are based on our findings in this audit and in our previous reports.

Criteria

The criteria used in this audit were drawn from a number of relevant and authoritative sources:

- the Materiel Management Policy of the Treasury Board Manual;
- the Common Services Policy of the Treasury Board Manual;
- the guide to the Review of Materiel Management, Treasury Board Secretariat, November 1994;
- departmental standards and directives;

- studies from academic sources; and
- reports of auditors general in other jurisdictions.

Audit Team

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Report of the
Auditor General
of Canada
to the House of Commons

Chapter 24
Systems under Development –
Getting Results

November 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 24
Systems under Development –
Getting Results



November 1996

This November 1996 Report comprises 19 chapters, including “Matters of Special Importance”, as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients’ needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

Chapter 24

**Systems under Development:
Getting Results**

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Systems under Development: Getting Results

Assistant Auditors General: David Roth and Shahid Minto

Responsible Auditors: Eric Anttila and Hugh McRoberts

Main Points

Part I — Key Issues for Success

- 24.1** To realize the benefits that large information systems promise, risks must be taken but managed effectively. Of the four projects reviewed this year, only one has an effective risk mitigation process in place, although project delays are still expected.
- 24.2** We concentrated our audit on service delivery systems rather than the mostly administrative systems examined last year and found many of the same problems. We are concerned that investments of some \$3 billion in these projects will not achieve the results targeted by government.
- 24.3** We focussed our report on six issues we considered key to project success: taking charge of the project, defining requirements, improving software development processes, setting priorities, measuring the status of a project and implementing new government guidelines. Issues of procurement for information technology will be reviewed separately in a later report.
- 24.4** We estimate cost overruns of \$250 million for expenditures of \$1 billion in two of the projects. There is an urgent need for attention and involvement by senior management in the development of large information technology projects.
- 24.5** Some scheduled delivery dates have slipped by as much as two years. A major factor is the inability of departments to specify the functional requirements of the system. Given the rapid pace of change, risks are further increased when the government enters into long-term fixed-price contracts with requirements that are essentially ambiguous, poorly defined, or changing frequently.
- 24.6** Where software development is involved, processes need to be well defined and well managed. Tools exist to aid in identifying and managing risk, sizing the project and assessing the organization's capabilities to deliver the project. They need to be used.
- 24.7** To overcome schedule slippages, cost overruns and the relaxation of original requirements, it is important for senior management, at the start of the project, to establish clear, realistic and precise priorities for time, cost and requirements, as well as the results to be achieved. These priorities have to be reviewed regularly throughout the project.
- 24.8** In the projects we reviewed, measurements of project progress were not used or were used ineffectively to determine the status of the project, to support effective management decision making and to report on the project.
- 24.9** In April 1996, the Treasury Board approved an Enhanced Framework for the Management of Information Technology Projects and, as of June 1996, departments are being directed to comply with its requirements. However, action plans are needed from the departments to apply the Framework to the more than \$5 billion worth of investments in existing and future projects.

Main Points (cont'd)

Part II — CAATS: Some Matters of Concern

24.10 One of the projects we reviewed, the Canadian Automated Air Traffic Control System was in difficulty by late 1994. It appeared that the project could not be completed either on time or on budget. Transport Canada changed the Project Director and the reporting relationships to ensure the ongoing involvement of senior departmental management in the remainder of the project. Under this guidance, a rebaselined contract was negotiated.

24.11 Changes to the project resulting from the renegotiation of the contract resulted in an increase in costs to the Crown of \$217 million. In preparing Part III of its Estimates, the Department followed the convention of reporting for Major Crown Projects the following: the effective project approval (\$659 million) and only those additional costs that would be incurred to the end of the main contract (\$75 million). However, in doing this, the information provided suggests that the renegotiated contract was achieved with no material increase in the cost to the project. As a consequence, this presentation results in Parliament not being fully informed of the real cost of the decision to rebaseline the CAATS project.

24.12 In renegotiating the contract price, the price was increased by \$73 million, from \$427 million to \$500 million. Our analysis of the documentation prepared to justify the price increase shows that the government has agreed to a contract price of \$500 million on a contract where a consideration of the price of the items removed from the original contract and the cost of the items added would only justify a price of \$282 million. Additionally, in our opinion, the material prepared for consideration by the government in approving the revised contract should have clearly shown that the revised contract price of \$500 million included a component that represented the cost to the Crown of putting the contract in good standing, settling all past differences and disputes among the parties to the contract, and receiving from the contractor a formal release to that effect. While it is not possible to calculate the exact amount, our review of departmental documentation, the price justification and discussion with management leads us to conclude that the settlement cost was approximately \$200 million.

24.13 Prior to rebaselining, the role of the CAATS Project Office in bringing closure to requirements definition was largely responsive. There was no formal plan to ensure that this work was concluded in an orderly and timely fashion. At rebaselining, a significant number of important design issues were unresolved. Since rebaselining, integrated project teams were set up to tackle design issues, most of these have been resolved and the Project Office has initiated formal project monitoring and risk management practices.

24.14 Milestones represent an important control in a project of this size. However, in this project, milestones have acquired considerable flexibility. We are concerned both about past practices in assessing the completeness of milestones and about the apparent practice of renegotiating milestones every time a significant milestone is not met.

24.15 Verification is the set of activities that permits the Project Office to conclude that the delivered system meets the specifications in the contract and is safe for use. CAATS is a safety-critical system and this imposes a higher onus on verification activities.

24.16 We conclude that the Project Office has not established the degree of assurance it needs in terms of either system performance or system safety from its verification activities. In addition, the Project Office is not able to determine the level of assurance it will receive from the activities that it and the prime contractor are and will be carrying out. Extensive testing of the system may aid in gaining assurance that the required functions exist in the system, but it is unlikely to provide adequate assurance of the system's overall safety.

Part I — Key Issues for Success

Introduction

24.17 Over the past year, the House of Commons Standing Committee on Public Accounts (PAC) held hearings on Chapter 12 of the Auditor General's October 1995 Report and published its report in May 1996. The Committee report calls for:

- more resources to monitor large information technology projects;
- an annual report by the Treasury Board Secretariat to the PAC on the status of departments' investments in systems under development;
- steps by the Secretariat to ensure that there is complete ownership and accountability for large information technology (IT) projects; and
- the division of projects, if possible, into manageable components.

24.18 The Treasury Board Secretariat convened a group of senior representatives from departments that have large projects under way. The purpose was to establish a revised framework for developing large projects. On 18 April 1996, the Treasury Board approved an Enhanced Framework for the Management of Information Technology Projects that reflects the recommendations of Chapter 12. The information technology community effort also introduced other ideas to further support the effective management of these large projects.

24.19 We were concerned that the existing large IT projects would not or could not make adjustments to reflect this revised framework for some time. Accordingly, we continued the work started last year with a view to

underscoring the urgent need for improving the way the existing projects are being managed. Further details on the scope and approach of this year's audit are included at the end of the chapter in the section **About the Audit**.

24.20 In Chapter 12, we referred to the Treasury Board Secretariat's list of 25 large government IT projects with a combined budget of more than \$2.1 billion. Our work has shown that this list is incomplete: it does not include all the projects and all the costs.

Observations

Status of the Systems Reviewed

24.21 We found that the Tactical Command, Control and Communication System (TCCCS) project at the Department of National Defence, the largest of the four systems reviewed this year (Exhibit 24.1), was the only one whose associated risks were being managed adequately. In this project, there were serious risks associated with delays in software development modules that could cause serious financial problems. However, the project team paid close attention to the risks identified. A concerted effort to promote open communications and to effectively delegate decision making throughout the project organization facilitated the identification of the risks affecting the project and offered management the opportunity to act accordingly.

24.22 In the three other projects that we reviewed, project risks were not being managed effectively:

- The schedule for the Canadian Forces Supply System Upgrade (CFSSU) at National Defence started slipping very early in its development. However, management is attempting to bring under control the risks of overrunning the

The House of Commons Standing Committee on Public Accounts held hearings on Chapter 12 of the Auditor General's October 1995 Report and published its report in May 1996.

On 18 April 1996, the Treasury Board approved an Enhanced Framework for the Management of Information Technology Projects that reflects the recommendations of Chapter 12.

schedule and budget by taking some specific actions regarding key management and technical risks.

- In 1994, the Canadian Automated Air Traffic System (CAATS) at Transport Canada ran into very serious time and cost overruns that led to a major renegotiation of the contract in 1995. In 1996, the project remains at very high risk and is not expected to meet the renegotiated schedule. For events subsequent to August 1996, see paragraph 24.137.

- The Real Property Services (RPS) system development framework contains 11 separately planned projects. In

attempting to develop nearly all the projects at the same time, the developer of the system, Public Works and Government Services Canada (PWGSC), encountered difficulties that have introduced a high level of risk. The complete package of projects was not submitted for approval to the Treasury Board and relied solely on internal budget allocations by PWGSC. Two projects have already delayed their implementation date by six months.

Managing Projects

Taking charge of the project

24.23 Last year, we noted the consequences of a lack of consistent

Exhibit 24.1

The Four Large Multi-Year Information Technology Projects in Brief

The Canadian Forces Supply System Upgrade (CFSSU) was initiated in 1981 and received Treasury Board approval in 1985 to improve National Defence's world-wide supply system for all forces, in both peace and war. Benefits were to be achieved through reducing inventories and providing more flexible operations with "just in time" deliveries. Total project costs were estimated at \$295 million. The main fixed-price contract was signed in January 1995 for \$150 million. Full operations are planned for early 1999.

The Tactical Command, Control and Communications System (TCCCS) will replace the current and badly outmoded communications facilities to provide Canadian Land Forces with a flexible, secure, survivable, responsive and easily maintained tactical voice and data communications system. It will include combat radios that are hand-held, back-packed and vehicle-mounted and provide both very short- and very long-range communications. Initiated in the early 1970s, the project received preliminary approval by the Treasury Board in 1988 for almost \$1.9 billion. The contract was signed in April 1991 for \$1.4 billion, with the prime contractor to assume full responsibility for design and delivery of the system. Close to 20 percent or \$263 million is slated for software development.

The Canadian Automated Air Traffic Control System (CAATS) was initiated in 1986 (for more details, see Exhibit 24.3) and received Treasury Board approval in November 1989 for \$658.7 million, at which time a fixed-price contract was approved for \$465.6 million to cover all aspects of system development, acquisition and implementation. The contract was renegotiated in October 1995 with the schedules amended and the original requirements somewhat down-graded. The system is intended to provide a state-of-the-art air traffic control system and facilities to meet the long-term needs of Canada's Air Navigation System and International Civil Aviation Organization obligations. The contract, renegotiated in 1995, called for delivery of the new automated air traffic system to all sites in July 1998, although installation will be the responsibility of the Department. Negotiations are currently under way to extend the deadlines.

Real Property Services (RPS) Branch of Public Works and Government Services Canada has a number of initiatives under way, the sum of which will provide an overall system integrated around a common database and permitting the re-engineering of RPS. These projects devolved from strategic plans developed by the different branches of Public Works in 1990 through to the current amalgamation of Public Works and Supplies and Services Canada into one department. There are now 11 components being developed concurrently at an estimated cost of over \$50 million, with implementation dates extending to 1997-1998. The RPS initiatives are viewed by the Department as separate projects. Except for one project estimated at \$10.6 million by the Office of the Auditor General, each project is under \$10 million (the limit set for a submission to the Treasury Board Secretariat).

support for a project from senior management and emphasized that effective sponsorship for a project is critical to its success and achievement of intended results.

24.24 The Public Accounts Committee endorsed the notion of effective project sponsorship in its May 1996 Report. The Treasury Board also endorsed this concept in April 1996 in its Enhanced Framework for the Management of Information Technology Projects.

24.25 We have observed that the chance of success is greater when the project leader, sponsor and manager are trained and experienced, and have proven project management capability (Exhibit 24.2).

24.26 Strong leadership, effective communication and appropriate delegation of responsibility in the TCCCS project helped to mitigate the risks caused by the geographical separation of the project teams and by the complexity of the project. Given the nature of the project, senior management's support to the project team came from the project leader. Overall, the project team in place had a high level of technical expertise and displayed strong management skills. The

project team encouraged and created an environment of open and honest communication among all the members of the project and with the stakeholders. There was also a judicious delegation of responsibility to the technical staff.

24.27 By contrast, for the first five years of the CAATS project, the project leader and project sponsor were only minimally involved in the decision-making process. As a result, senior managers did not take a central role in decision making. In December 1994, the Deputy Minister assumed the role of project sponsor, the Assistant Deputy Minister assumed the role of project leader and the project adopted a more businesslike approach.

24.28 CAATS is an extremely complex software development project (Exhibit 24.3) that, like TCCCS, entails managing geographically dispersed teams. However, in the case of CAATS, effective communication and appropriate delegation of responsibility to the project staff were missing prior to December 1994. Although improvements are under way, communication is still not effective between the Project Office and

Strong leadership, effective communication and an appropriate delegation of responsibility in the TCCCS project helped to mitigate the risks.

Project sponsor: a senior executive, usually at the assistant deputy minister (ADM) level, who understands and communicates the value of the project to the organization, and who, in co-operation with the project leader, continually supports and promotes the project. He is often seen as the person who succeeds or does not succeed in driving the project to a successful conclusion. Typically, he is responsible for the business function that the project will support.

Project leader: a senior executive, usually at the ADM level, who has overall responsibility for the project and is accountable for all internal and external aspects of its implementation. For very large projects (\$100 million or more), the responsibility requires dedicated attention and involvement.

In some organizations, it may be possible for one individual to assume the dual role of sponsor and leader.

Project manager: the official who is responsible to the project leader for the day-to-day management of the project and, more specifically, for achieving all of the defined project objectives within the time and the resources allocated.

Exhibit 24.2

**Key Project Officials for
Systems under Development**

Exhibit 24.3

Key Milestones in the
Development of CAATS:
A Chronology

May 1986	Treasury Board approves \$3 million to plan the Flight Data System Modernization Program (FDMP), a system to both automate certain tasks relating to controlling air traffic, and consolidate other air traffic systems.
June 1986	Transport Canada releases a Price and Availability inquiry, asking industry for solutions and prices. Five firms respond.
June 1988	Cabinet concurs that FDMP should be expanded to include the Common Controller Workstation project, and FDMP is renamed CAATS.
September 1988	Transport Canada issues a Request for Proposals. Two firms respond.
May 1989	Treasury Board grants preliminary project approval for CAATS at an estimated total cost of \$826.7 million.
November 1989	Treasury Board grants effective project approval to CAATS for a total estimated cost of \$658.7 million, including Transport Canada's commitments. The prime contractor is awarded a fixed-price contract with a ceiling of \$465.6 million.
September 1993	A Department of Transport Internal Audit report warns of potential risk and cites possible reasons why CAATS is two years behind schedule. The report finds that senior management was not informed of the effect of slippage on the project schedule.
December 1994	The government informs the prime contractor that it is suspending payments due to failure to achieve the latest milestone. Negotiations to restructure the contract begin.
March 1995	The Minister of Transport asks the Auditor General to review the project.
July 1995	An independent assessment of the proposed restructured project notes that requirements are not finalized, simultaneous transition to the new system at all sites is not practical and that the project cannot be finished in the time allotted. However, as the report judges that the system will be operationally and technically adequate when completed, there is a recommendation to continue the project in order to replace an aging air traffic control system.
September 1995	<p>Treasury Board approves the substantially amended project and contract. Key changes include:</p> <ul style="list-style-type: none"> • a new delivery date for CAATS (July 1998); • a new fixed-price contract of \$500 million; • a smaller – that is, “descoped” system, with fewer features and only 23 instead of 60 control towers receiving CAATS; and • \$217 million of original contract requirements transferred to Transport Canada, including the leasing of hardware for \$176 million. <p>More details are provided in Part II.</p>
March 1996	A major milestone is accepted as complete one month late. Progress reports indicate the next milestone, due in October 1996, will fall several months behind.
July 1996	Negotiations are under way between Transport Canada and the prime contractor to complete an amendment to the CAATS contract to resolve outstanding issues. The purpose is to place the contract “in good standing” and enable its assignment to Nav Canada to occur on 1 November 1996.

the Air Navigation System (ANS), the client group for CAATS.

24.29 The lack of appropriate delegation of responsibility to the CAATS technical staff to resolve technical issues as they arose made decision making cumbersome and slow. In all cases, decisions affecting work being done in British Columbia had to be referred to senior project managers in Ottawa or to Transport Canada headquarters. Beginning in late 1994, a higher priority has been put on expediting decisions.

24.30 In the spring of 1995, the Deputy Minister took an active role and the Assistant Deputy Minister took a hands-on approach by changing the reporting relationship of the project manager to a direct one. This has been instrumental in closing some of the open items and shortening decision cycles. However, problems persist as a more results-oriented management approach is put in place.

24.31 As part of this audit of systems under development, we reviewed the U.S. government's professional development program that offers senior project executives training in the procurement and the management of large system projects. The Treasury Board Secretariat is working on implementing a professional development program aimed at Canadian project managers. Such a program could help create a pool of experienced and expert project managers in Canada. However, we have concerns whether the Canadian program will address the need for qualified project leaders at the assistant deputy minister level to lead large development projects.

24.32 In the U.S., recent policy and practice do not allow a large development project to proceed until a qualified project leader is appointed to lead the project full time. In Canada, there is no such policy.

Government departments generally assign part-time project leaders who have no specific training or experience in managing large information technology projects.

Defining requirements: the essential first step

24.33 Last year, we stressed that business needs should dictate the requirements for technology. Similar to our 1995 findings, we found in this year's audit that the government started developing systems before it had clearly defined system requirements for reasonable and realistic time horizons.

24.34 The government runs unnecessary risks when it enters into long-term, fixed-price contracts before a clear understanding of what will be built is reached by all parties. The fixed-price development contract ought to be let only when the government and the developer have reached a common understanding and definition of the requirements, the criteria to be used to determine success and the milestones for the work to be done. Combined with the "manageable component" method described last year, this approach can help avoid the high risks currently experienced. Similar to long- and short-term financial planning, projects need to be planned as a whole; but project phases and contracts need to be planned in more detail for 6 to 18-month planning horizons to allow a higher level of control in achieving results.

24.35 We selected two projects to illustrate what can happen when a contract is awarded before requirements are clearly understood.

24.36 In the case of the Canadian Forces Supply System Upgrade, \$15 million was divided among three firms for what was called a "funded definition phase". This approach was a

The government started developing systems before it had clearly defined system requirements for reasonable and realistic time horizons.

To deliver high-quality products, on time and within budget, developers of large software systems must implement standards of quality in the processes put in place.

deliberate risk reduction strategy to enable potential contractors to develop a full understanding of a very complex requirement and thus develop precise proposals for the solution. The three firms worked competitively and concurrently to prepare their bid. The winning firm received an additional pre-implementation contract of \$2.5 million to update its implementation proposal. However, this process of using a series of contracts to define the project failed to produce a clear set of requirements.

24.37 After being awarded a four-year development contract, the winning contractor needed the first nine months to confirm with National Defence its understanding of the requirements. By the end of that time, it had become clear that the project would take longer and cost more than expected unless the requirements were reduced. Establishing and confirming the system's requirements over shorter periods of time and identifying the specific deliverables before awarding the final contract would have helped the Department design a better contract and establish better development plans.

24.38 In the case of CAATS, the project evolved from another project started in 1986, the Flight Data System Modernization Program. The contract was signed in 1989. A year later, at the first major milestone, the contractor presented a description of what the new system would look like and do. However, Transport Canada rejected the document because it did not correspond with its own understanding of the requirements.

24.39 In June 1994, the contractor and the Department had not yet reached a common understanding of the requirements and, as the requirements for the latest milestone had not been met, the government stopped all progress payments

(\$230 million to that point). In May 1995, an agreement was reached on a reduced set of requirements and new approval was obtained from the Treasury Board in September 1995. Resolving a number of high-risk functions and other items that were removed from the contract is now the Department's responsibility. A further description of the renegotiated contract can be found in Part II — CAATS: Some Matters of Concern.

24.40 In May 1996, six years into the contract and two years before the system's final delivery date, there are still 11 unresolved issues relating to some operating concepts and to what will actually be built according to the renegotiated contract.

24.41 In both the CFSSU and CAATS projects, many dedicated people in the project management offices have struggled to keep the projects moving ahead, only to have to redo their work because requirements weren't understood or were poorly communicated. Clearly, all parties must thoroughly understand the system requirements as a prerequisite to managing the risks associated with any software development project. While it is true that requirements can legitimately change over time and that some cannot be detailed in advance, it is important that all parties agree to specified requirements for reasonable and realistic time horizons. Action plans can be created to deal with any vague or outstanding need that extends beyond predictable time horizons.

Improving software development processes: the Capability Maturity Model

24.42 In all eight of the IT projects that we have examined over the past two years, the risk of falling behind schedule and running over budget has been very high. To deliver high-quality products, on time and within budget, developers of

large software systems need to implement standards of quality in the processes they put in place. Whether departments acquire or develop their own software, they need a framework that encourages continuous improvement in software development practices must exist. To date, except for new directives issued in June 1996 with the Enhanced Framework, we have seen no evidence that the government has provided the methodologies necessary to help support the continuous improvement of software development.

24.43 What limited success there has been in developing government information technology projects has been the result of outstanding contributions by individuals. However, when those individuals leave, the ability of an organization to repeat the success is often lost. By contrast, a “mature” organization possesses an organization-wide ability to manage software development, software acquisition and lifetime software maintenance. Its success does not depend on chance or on individuals.

24.44 Mature software development organizations work hard to implement standards of quality that are well accepted by industry and governments, such as the International Organization for Standards models (ISO 9000) or, more specifically in

the area of software development, the Software Engineering Institute’s Capability Maturity Model (CMM). The Treasury Board Secretariat has included in the Enhanced Framework for the Management of Information Technology Projects the requirement to use the Capability Maturity Model (Exhibit 24.4). The Secretariat sees the Model as the cornerstone of an approach to identifying and managing project risks in software development projects. In the longer term, the Model may help the government to improve software development capability by supporting continuous improvement in development processes. In the Framework, the Secretariat further suggests that the achievement of a specified maturity level eventually become mandatory for government departments and contractors. As organizations meet higher standards of quality in their development processes, the probability of obtaining the intended results in large information technology projects is increased.

Setting priorities

24.45 To achieve a desired outcome or result in implementing large information technology projects, three key variables must be managed effectively: requirements, time and cost. In all projects examined, we found that compromise of these variables began immediately after

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The Capability Maturity Model (CMM)SM

In the USA, in 1986, the US Department of Defence funded the establishment of the Software Engineering Institute (SEI) at Carnegie Mellon University. The SEI has developed a Capability Maturity Model (CMM) that is now available to all institutions worldwide. The Model outlines how an organization can establish a step-by-step roadmap to implement a software development improvement program. It can also be used to assess the capability level of an organization or lead to the certification of an organization by an accredited evaluation team.

The Model includes several levels of maturity that describe “the extent to which a specific process is explicitly defined, managed, measured, controlled and effective” (CMM, The Process Maturity Framework, 1993).

CMM is a service mark of Carnegie Mellon University.

Exhibit 24.4

A Tool to Assist with Improving the Software Development Process: The Capability Maturity Model

the project was started. Generally, the first variable to be compromised is requirements, with the usual result that the system will ultimately do less than originally envisioned.

24.46 Typically, the next variable to be compromised is time. Either the time allowed for completing the project is increased or the project is implemented in stages or phases, which, in effect, extends the original completion date.

24.47 The third variable, cost, is usually the last to be compromised because the Treasury Board must normally approve any change in funding. Attempts to adhere to the project budget often translate into more compromise of time and requirements.

24.48 To adhere to the original project budget approved by the Treasury Board, costs are often adjusted by transferring direct project costs to other departmental budgets. For example, when the CAATS project was redefined in 1995, Transport Canada assumed a number of responsibilities that previously had been part of the CAATS contract. Equipment that was to be purchased as part of the original contract amount is now to be leased by Transport Canada at a total additional cost of \$176 million over seven years. These new costs will be paid out of departmental budgets.

24.49 All the projects that we examined faced critical decisions on the compromises necessary to complete them. The time to decide which is the most important element — requirements, time or cost — is when the project starts, before major contracts are signed. Based on our work to date, single, large, lengthy, fixed-price contracts are not suitable for large information technology projects because they appear to limit management's ability to adjust to changed

conditions. There is an urgent need to improve the procurement and contract processes for information technology projects.

24.50 As reported last year, one way to achieve more flexibility is to break down large projects into smaller, more manageable components. This position was endorsed by the Public Accounts Committee in its report on Chapter 12 of our October 1995 Report and by the Treasury Board Secretariat in its Enhanced Framework.

24.51 Implementing large projects in smaller pieces must be well managed. For example, the set of 11 projects in Real Property Services (RPS), when taken together, represents a very large system development effort. Individually, each project constitutes a manageable component of the whole. However, the benefit of dealing with the entire set of projects in smaller, more manageable components was lost when, for reasons of time and of funding from operational budgets, all the projects were run concurrently. A shortage of experienced and expert staff resulted. RPS senior management has determined that the implementation date (time) of the system is the highest priority, cost is the second priority and requirements is where the greatest flexibility can be exercised. Unfortunately, those priorities were not made clear to all the stakeholders and project teams. When the project priorities are not clearly understood at the start, time and effort are wasted later on clarifying understandings, reducing overlaps and reconciling organizational agendas.

Measuring the status of a project: a key to completing it on time and within budget

24.52 Tracking the status of a software development project against its planned

cost and schedule is critical to making decisions on managing that project. Accurate and timely use of performance data is crucial to delivering a useful product to the end users on time and within budget. An important characteristic of a mature organization is the existence and use of a balanced set of performance indicators to measure the progress of a project. In software development projects, these indicators are critical because little end-user value is really visible until much later in the project.

24.53 In 1992, the Treasury Board required all project leaders to use a project performance management system to manage all major capital projects (projects larger than \$100 million). In 1994, this requirement was extended to all projects. We note that in 1993, government and industry adopted C/SPMS (Cost and Schedule Performance Management System) as the national standard. It conforms to international standards and provides a balanced measure of performance by evaluating performance against both planned cost and schedule. The Treasury Board is strongly recommending that all project leaders use C/SPMS.

24.54 In the case of the CAATS project, progress figures were produced as required under the 1995 renegotiated contract but management did not use the data as a tool for managing the project (for reasons outlined in paragraph 24.61). In Real Property Services, progress indicators such as C/SPMS were not used. Two other projects that we reviewed had mixed experiences with the use of performance data.

24.55 The CFSSU project adopted the C/SPMS standard. Management's analysis of the monthly performance figures showed rising costs and a slippage in

schedule. Efforts were made to take corrective action; however, senior management did not recognize the full implications of these figures until our audit confirmed the project management's analysis of the situation. The trends in the data showed that the project would take twice as long and cost over \$100 million more than expected if the project were to continue to completion with productivity at the current level. However, the trends showed productivity declining rather than staying constant. This indicated that the project would never be completed unless management took significant corrective action. At the time of our audit, project management was looking at alternative ways to meet the project objectives.

24.56 The Treasury Board Secretariat received the same monthly reports, as a courtesy, from the CFSSU project manager. Secretariat officials attended senior project meetings. However, the Secretariat considered the information gained from the meetings and reports to be "unofficial". Treasury Board Secretariat policy requires that the project leader formally communicate project performance information to ensure that accountability for project delivery clearly remains with the department. Despite having the information and a responsibility to monitor large information technology projects, the Secretariat did not assess departmental performance in meeting the objectives of the major capital projects policy, nor did it escalate the issue of the schedule slippage to the Treasury Board ministers. The Secretariat views its monitoring responsibilities as related to the effectiveness of its policies rather than to project management, which is a departmental responsibility.

24.57 In the case of TCCCS, the project predated the adoption of C/SPMS. Nevertheless, performance data

Accurate and timely use of performance data is crucial to delivering a useful product to the end users on time and within budget.

It is imperative that departments develop action plans to implement the guidelines in new and existing projects as soon as possible.

conforming to the standard were provided by the contractor to National Defence.

24.58 The system that generated the performance data for TCCCS was separate from the one used to generate data for internal management purposes. As a consequence, the reporting system and the management system often presented different views of the status of the project. Efforts to change the system would have been costly and the overall project might have been 75 percent complete by the time the changes were made.

Consequently, because the reported data were incomplete or contradicted other sources of information, the TCCCS management team had to develop alternative, time-consuming methods of tracking progress. As a result, management obtained performance data that were over two months old by the time they were assembled, which compromised their usefulness for decision making. The TCCCS management team compensated for the time lag with an ongoing analysis of the various project risks it had identified and with technical reviews.

24.59 Two other major software projects that we examined, CAATS in 1996 and ISPR (the Income Security Program Redesign) in 1995, were major capital projects that used the C/SPMS standard but only partially. In both cases, performance was tracked in relation to schedule but neglected in relation to cost. In the case of CAATS, Transport Canada is not using the cost performance indicators, and the method used to calculate the figures for schedule performance has severely compromised their usefulness for management purposes.

24.60 Cost performance is a critical indicator. It can show management that resources are being spent at a rate that will put the project under severe financial

pressure before it is completed. We have observed that fixed-price contracts created a false sense of security for some managers and they paid little attention to cost performance indicators. A fixed-price contract does not necessarily mean that costs are managed. Project costs can increase dramatically while contract costs remain fixed. As mentioned in paragraph 24.47, financial pressure can cause compromises in the schedule or in what the final product can do.

24.61 In the CAATS contract renegotiations of 1995, the Crown agreed that the previous five and a half years of work would be deemed to be 100 percent "on time". This approach introduced severe distortions that have hidden the true schedule performance since July 1995. Even serious slippages in the schedule cannot be clearly identified until major deadlines are missed. Status reports from the prime contractor indicate that the CAATS project is very unlikely to be delivered on time and at currently specified cost and requirements (as per October 1995 amended contract). This is further confirmed by contract negotiations under way as of August 1996.

Implementing the Enhanced Framework for the Management of Information Technology Projects

24.62 As mentioned, the Treasury Board Secretariat has produced guidelines in the Enhanced Framework for the Management of Information Technology Projects that can help to reduce the risks inherent in such projects. In view of the size of the investments in information technology and the savings possible through better project management, it is imperative that departments develop action plans to implement the guidelines in new and existing projects as soon as possible.

24.63 The first challenge for the Treasury Board Secretariat is to determine the actual size of investments in information technology projects. The Secretariat does not have a comprehensive list of all projects and their full costs. Only two of the systems that we examined this year are on the Treasury Board Secretariat's list of 25 projects: CFSSU and CAATS. The cost of these two projects totals \$953.7 million, as approved by the Treasury Board. However, cost is presented only as \$710 million on the Secretariat's list, or 26 percent of the total \$2.7 billion. The other two projects that we examined, TCCCS and RPS, were not on the list. The Treasury Board approved TCCCS at \$1.9 billion, including over \$1 billion in communications equipment. The set of projects in RPS has a value of at least \$50 million, by our estimate, but has never been submitted to the Treasury Board. A complete listing of all government projects with an estimate of the full life cycle costs does not exist. This information may be useful to inform Parliament of the total investment in these projects, as recommended by the Public Accounts Committee.

24.64 We estimate that technology projects in government represent well over \$5 billion in investments over the life of these projects. Using the statistical findings of a recent study in its revised Framework, the Treasury Board Secretariat estimates that changing the way these projects are managed could help save over \$1 billion in cost overruns on the \$2.7 billion worth of projects on its current list. Assuming the same factors were applied, there could be possible savings of close to \$2 billion on the current \$5 billion worth of projects.

24.65 The Treasury Board Secretariat plans to develop the policy changes and the government-wide practices required

by the Enhanced Framework by April 1997. As of May 1996, departments had been directed by the Treasury Board to implement the new Framework over the next few years. However, we are concerned that the lack of clear departmental action plans will allow many large information technology projects already under way to lose the benefits of the new Framework over those years. Until the Framework is firmly established in the departments, the Secretariat will need to provide support and monitor compliance very closely if the government is to reap the expected benefits.

Report Card on the Four Projects Reported in October 1995

24.66 In 1995, we reported that the Income Security Program Redesign (ISPR) needed continuing corrective action by senior management. Intensive negotiations in the past year to manage project risks and to accommodate legislative changes have resulted in a proposal to submit to the Treasury Board a revised schedule and budget as well as some changes in the contracted deliverables. The project requires a schedule adjustment of 11 months and an increased budget to accommodate change of approximately \$80 million. At the time of writing this report, no decision had been made. Any additional change to government policies and programs could further affect the cost and schedule of ISPR. Risks remain very high that further changes in schedule, cost or requirements will be necessary to complete the project; management needs to continue taking strong action to mitigate these risks as much as possible.

24.67 Since we reported last October, the development of the Common Departmental Financial System (CDFS) has been concluded and the system is being implemented throughout Public

There could be possible savings of close to \$2 billion on the current \$5 billion worth of projects.

Works and Government Services Canada. In addition, Correctional Service Canada and eight small agencies have adopted CDFS as their financial system. Adjustments are still being made to the system to make it fit better with other existing systems and to improve its performance.

24.68 The Integrated Departmental Financial and Materiel Management System (IDFS) has been implemented at Transport Canada. In addition, a group of users has been formed and is aiming to upgrade the system by April 1997. The cluster group includes Transport Canada, the National Film Board, the National Research Council, Environment Canada, Fisheries and Oceans and the Vancouver Airport Authority.

24.69 As reported last year, the Public Service Compensation System (PSCS) was terminated.

Conclusions and Recommendations

24.70 Our Office fully supports the use of information technology in government to manage costs and improve service to the public.

24.71 In our audit this year, we focussed on six key factors that we believe greatly influence the success of systems under development in government:

- It is essential to clearly define the requirements of the system for reasonable periods of time prior to awarding long-term fixed-price contracts or starting development work.
- Senior management, including (but not limited to) the project leader, the project sponsor and the project manager, must be closely involved in any systems development project.

- Organizations carrying out major IT projects must have the “maturity” or capability to do so.

- Priorities for time, cost and requirements must be set at the start of the project, be well communicated to all parties and be reviewed regularly so that the planned results can be achieved.

- Accurate, timely and effective performance measurements must be used to manage the project.

- Action plans need to be developed by departments to implement the Enhanced Framework for the Management of Information Technology Projects.

24.72 Although we focussed our attention this year on the above-noted factors, we believe, as we reported last year, that successfully developing and implementing systems entails a combination of other critical factors such as:

- effective user involvement and commitment to the success of the project;
- the experience and expertise of the staff dedicated to the project; and
- the separation of large projects into smaller, more manageable components, each of which provides an improved capability to the organization.

24.73 We endorse the efforts of the Treasury Board Secretariat in developing the Enhanced Framework for the Management of Information Technology Projects. We also endorse the efforts of those departments who have taken steps to respond to the issues that we have raised in these audits, and who have responded positively to the Enhanced Framework by seriously examining ways that their management of existing projects could be improved. In addition, we commend those departments who, through their own efforts at continuous improvement and quality management, have implemented

We endorse the efforts of those departments who have taken steps to respond to the issues that we have raised in our audits, and who have responded positively to the Enhanced Framework.

best practices learned from their own projects or from others.

24.74 We are pleased that the Public Accounts Committee has taken a keen interest in the results of our 1995 audit of systems under development. The Committee stressed three areas for action in systems development projects:

- sponsorship, ownership and accountability by senior management;
- full commitment and true accountability at all levels to carry a project through to completion; and
- implementing systems in smaller, more manageable components.

24.75 The Public Accounts Committee also recommended that the Treasury Board Secretariat monitor and report annually on all large information technology projects.

24.76 To support the work started by the Treasury Board Secretariat and continued by the Public Accounts Committee, the following initiatives should be taken by the Secretariat and the departments:

- All parties should formally agree that requirements for reasonable periods of time have been clearly defined and understood before a fixed-price development contract is signed or development work begins.
- A professional development program for senior project management (project leaders, sponsors and managers) should be implemented.
- Before a department begins a software development project, a suitable rating according to the Capability Maturity Model, as recommended by the Treasury Board Secretariat in the Enhanced Framework, should be considered as a criterion for selecting the system developers.

- **Appropriate performance indicators or measures should be put in place for managing information technology projects.**

- **A project leader at the assistant deputy minister level should take charge and be fully involved in very large projects (\$100 million or more) and, as we recommended last year, there should be a project sponsor to work in close support throughout the development process.**

- **At the start of the project, a document setting out the results to be achieved and the relative importance of time, cost and requirements should be produced. These priorities should be communicated to all parties and reviewed regularly for their continuing appropriateness.**

- **The Treasury Board Secretariat should co-ordinate with the departments to produce action plans that will implement the principles discussed in the Enhanced Framework for the Management of Information Technology Projects.**

Treasury Board Secretariat's response:
The Treasury Board Secretariat generally agrees with the findings and observations of the Auditor General. The achievement of significant cost reductions while improving government service to Canadians depends heavily on the application of information technology to renew existing processes. The huge scope and complexity of these projects results in significant risk. While risks can never be totally eliminated, the government must improve its identification, assessment and management of project risks to ensure that its program objectives are achieved.

Departments are implementing the Enhanced Framework for the Management of Information Technology Projects approved by the Treasury Board. Work is proceeding in a review of the information technology procurement process, in developing a project manager

and project leader development and support program and in identifying improved practices, methodologies and tools for managing projects, including project size, project review, monitoring and approval, risk assessment and management, and change management. As mentioned by the Auditor General, the Software Engineering Institute's Capability Maturity Model is being studied as a model for government.

Many existing projects, like those audited by the Auditor General this year and last, suffer from inadequate past practices that cannot be fully corrected retroactively and are being carried out under contracts that limit departments' ability to negotiate changes. Departments are managing these projects closely but they still pose high risks. The Enhanced Framework will help departments to manage their existing high-risk projects. However, its primary benefit is expected to be significant improvement in the government's success for new information technology projects.

We appreciate the continuing support of the Auditor General's Office and look forward to its continuing involvement in the work of improving the government's successful completion of large technology projects.

Department of National Defence's response: The Department generally concurs with the content of this report.

For all major projects, the Department assigns both project sponsors and project leaders in addition to the project manager. For some projects, the project sponsor and leader roles may be assigned to the same person. These people normally have extensive project management experience in addition to the formal training provided to all departmental project managers.

On the CFSSU project, the findings of the Auditor General served to confirm departmental management's assessment of the problem areas identified several months before the audit. Senior

management, including the interdepartmental Senior Project Advisory Committee, was fully involved and had engaged a highly regarded consulting firm to assist in confirming appropriate corrective action.

Public Works and Government Services Canada's response: The Department generally concurs with the findings of the Auditor General and shares the concerns expressed with respect to the risks of systems under development.

Public Works and Government Services Canada (PWGSC) agrees with many of the Office of the Auditor General's (OAG) conclusions; however, the proposed remedies are less persuasive, as these recommended improvements have been used in the past. The recommendations focus on processes such as reporting, risk analysis, performance indicators, and scorecards; this belies the human factor in the successful completion of projects. The Department believes that competent individuals and project management skills are fundamental to the success of projects. Therefore, the following paths should be considered by the government:

- development through such proven training in project management at the departments of National Defence and Transport, the Project Management Institute (PMI) and the PWGSC Institute;
- incentives to attract and retrain staff, and management of the incremental progression of these valued resources across departments.

PWGSC is moving toward a regime where, to improve the quality of PWGSC decision making, all cross-functional projects and significant application development activities must go to the departmental Information Management Committee (IMC) in their initiation stage for a rigorous assessment of return on investment, project life cycle costs, risk, infrastructure implications, priority, governance, etc. In addition, the Department is aiming to push ahead on

common IT infrastructure, from the workstation to development tools. Furthermore, PWGSC has identified the need to corporately manage the skilled project managers so that they are deployed appropriately.

PWGSC continuously aims to improve its software and systems development processes through various initiatives. It is the first department to use the Software Engineering Institute (SEI) software risk assessment methodologies and tools to facilitate systems under development (SUD) audits; furthermore, the full suite of SEI tools is being considered for facilitating audits and for transferring this technology to the business line organization. In addition, PWGSC has adopted this risk management approach to be implemented in each SUD project. The Capability Maturity Model (CMM) mentioned by the Office of the Auditor General was adopted by a departmental branch as a roadmap to improving its software development processes.

More specific to the PWGSC systems reported in the Auditor General's chapter, while there are 11 projects under way within the RPS Systems Framework, only 9 are application development projects. PWGSC agrees that concurrent development presents more risk than if projects are developed one at a time; however, it presents less risk than if the projects had been defined as one mega project. It should be noted that these projects were thought out and planned within a strategic framework, the purpose of which was to mitigate the risk of developing these systems concurrently. Although the timing of the development effort overlapped, it is a result of a need to proceed with these systems within a specified time period in order to meet our business and client needs. In order to mitigate future risks, PWGSC is currently revising its Strategic Information

Technology Plan with respect to the RPS systems. At the same time, PWGSC is reviewing the legacy systems and systems under development to rationalize and streamline these initiatives. An initiative is currently under way for situations where departmental staff are involved in a risk assessment audit of a RPS software development project.

The Department recognizes a need for RPS systems to be developed in a timely fashion within a finite budget; however, time, cost and requirements are not mutually exclusive. There are occasions where project timelines may need to be extended to ensure adequate functionality. It is PWGSC's objective to obtain a high-quality product that meets all functional requirements on time and within budget.

With respect to the CAATS project, PWGSC was responsible for the contractual and legal elements of the project.

The renegotiation of the CAATS contract was a complex process that took into account many factors, including contractor claims, outstanding differences between the Crown and the contractor and changes in scope of the work package. As a result, the amended contract was not prepared on the basis of integrating all of the elements in the original contract into the new contract. Rather, it was structured based upon available funds and a redefinition of the required work.

While the cost of putting the contract in good standing could have been presented in a different manner for greater clarity in documentation, PWGSC fully described the complex nature of the negotiation exercise to the government. PWGSC did, to the best of its ability, clearly disclose fully all aspects of the contract restructuring.

Part II — CAATS: Some Matters of Concern

Introduction

24.77 As described in Part I of this chapter, the Canadian Automated Air Traffic System (CAATS) is a Major Crown Project designed to update and increase the automation of the delivery of air traffic control services. (See Exhibit 24.5 for a brief summary of the project.) The core of the project centres around a contract with a single supplier — hereafter referred to as the prime contractor — charged with assembling the hardware and writing the software. The

contract with the prime contractor was let in December 1989 for a price of \$377 million, with final delivery scheduled for August 1995. Through successive amendments, the contract now stands at \$500 million, with final delivery scheduled for July 1998.

24.78 In March 1995, the Minister of Transport met with the Auditor General to advise him of concerns related to the CAATS project that had recently come to the attention of the Minister. He indicated that, in his view, the project merited our attention. This view was later reiterated publicly by the Minister in statements to the House of Commons. The project, which we were already monitoring, was also high on our list of audit priorities, and

Exhibit 24.5

What is the Canadian Automated Air Traffic Control System (CAATS)?

Transport Canada provides the following description:

“Among the most ambitious transportation technology projects ever undertaken in this country, the Canadian Automated Air Traffic System (CAATS) will automate flight data processing between all major air traffic control facilities nation-wide — managing flight traffic over 5.8 million square miles of Canadian airspace. This modern Air Traffic Control (ATC) system will replace existing Air Navigation Services (ANS) infrastructure, and will set worldwide standards for air safety, capacity, and efficiency.

“Upon completion, CAATS will be installed in Canada’s seven Area Control Centres (ACCs), 23 Control Towers, the Ottawa and Calgary Remote Terminal Control Units (RTCUs) and three support sites — the Transport Canada Training Institute (TCTI) in Cornwall, Ontario; and the Technical Systems Centre (TSC) and the Research and Experimentation Centre (REC) in Ottawa.

“CAATS is being designed to provide a paperless, automated flight data environment for air traffic controllers. In contrast to today’s array of disparate digital and analog communication interfaces that clutter a controller’s workstation — the result of grafting newer onto older systems over several decades — the CAATS Common Controller Workstation (CCWS) combines radar and flight information display in a single interface, which will result in increased controller effectiveness and efficiency. This paperless flight data processing and display system automates non-critical, labour-intensive tasks and furnishes data according to mission-critical criteria defined in consultation with the Canadian air traffic control community. With CAATS, each controller will be able to instantly access this flight data on CCWS screens without the need for a manual system. Currently, controllers mark the movement of an aircraft by handing a paper strip containing specific flight information for that aircraft from one controller to the next.

“By automating time-consuming manual tasks such as flight plan and routine data communications, and by automatically providing data to controllers when and where they need it, CAATS will give controllers more time to safely and efficiently manage the airspace for which they are responsible. In addition, automation will allow controllers to cope with today’s increasing air traffic while maintaining high standards of safety. CAATS will also bring significant benefits to the aviation industry in reduced traffic delays, more energy-efficient routes, and improved aircraft movement information and flight planning services.”

Source: Transport Canada

the conjunction of our priorities and the Minister's request resulted in the decision to do this audit.

24.79 Because the project was one of the larger systems under development in the government, we made an early decision to link our work with that of the Systems Under Development (SUD) audit team. It, in turn, was interested in examining CAATS as a case for its audit.

Assignment to Nav Canada

24.80 During the survey stage of our audit, an agreement was signed to sell the Air Navigation Service (ANS) to a private corporation — Nav Canada. One feature of the agreement was the intent to transfer the CAATS project to Nav Canada as part of the sale, and to assign the contract to the corporation. This meant that on the date of transfer, Nav Canada would assume the assets and liabilities, as at the date of transfer, of the Crown with respect to the CAATS contract and that those responsible for the project would be working in the private sector.

24.81 Accordingly, we decided to focus most of our audit attention on matters for which the lessons to be learned would remain valid for future government projects of this scale. At the same time, there were certain matters related to the project that lay outside the normal focus of our work on systems under development that we believed would be of interest to Parliament. We report on those matters here.

Observations

The Growth of CAATS

24.82 The CAATS contract was let in December 1989. Within the first year, delays were encountered. By the spring of 1994, there was increasing concern on the

part of the CAATS Project Office about whether the work could be completed according to the original schedule. In June 1994, two events transpired. First, the Project Office agreed to accept a milestone, due that month. Acceptance was conditional on certain other events, including a full review of the schedule for the contract. Second, because of concerns about progress, the contract authority (Public Works and Government Services Canada) decided to suspend further payments to the prime contractor pending the results of the review. At that point, \$230 million had been paid to the contractor. When the review was completed, late in the fall of 1994, the results indicated that the project was 15 months to two years behind schedule and that it could not be completed within the limits of the price of the current contract, which stood at \$419 million. Additionally, the review concluded that there had been significant technical divergence from the direction set out in the original contract. The reasons for this were beyond the scope of this audit.

24.83 These findings led to significant changes in the management of the project. A new Project Director was appointed, the Assistant Deputy Minister (Aviation) was designated the Project Leader and the Deputy Minister assumed the role of project sponsor. From this point on, they assumed ongoing leadership roles in the project, chairing key internal committees and communicating regularly with the senior management of the prime contractor.

24.84 In January 1995, under the leadership of a new Project Director, the Project Office and the contractor began discussions on a possible "rebaselining" or restructuring of the project. In March 1995, at the request of the government, the contractor submitted a

proposal indicating that it would require a contract price of \$764 million (including the \$230 million already spent) to complete the project (the existing contract then stood at \$419 million). The requested amount was not acceptable to the government.

24.85 Faced with this situation, the Department believed that it had two options. It could terminate the contract or seek to negotiate a reduced system at an affordable price. An affordable price was one that would stay within the original overall cost ceiling — the effective project approval (EPA) — of \$659 million established by the government for the project, and would result in a contract price of not more than \$500 million. Should a renegotiated contract be possible, continuing with the project would mean that the Department faced a further cash outlay of \$270 million on the contract. The Department believed, however, that there would be a reasonable prospect of receiving a functional system at the end of the contract — albeit, a system with less capability than it had originally hoped to get. Alternatively, if the Department decided to terminate the contract, it believed it faced the prospect of receiving very little of value for the \$230 million already spent, and the likelihood of being sued by the prime contractor for an amount equal to or greater than the cost of finishing the project.

24.86 After considering the alternatives, the Department decided to enter into negotiations with the prime contractor. The main objective was to maintain a project that would be operationally sound, while restructuring the contract so that the original overall cost ceiling (the EPA) of \$659 million would not be exceeded.

24.87 Those negotiations were concluded in September 1995 with a rebaselined contract. The price for the new contract was \$500 million, the total cost of two contracts: the main contract for CAATS with a price of \$478 million; and a contract for the voice switch for CAATS, priced at \$22 million. The voice switch was part of the original contract and was separated from it during negotiations. When we refer to the post-rebaselining contract, these two contracts are included together.

24.88 Transport Canada reported that, coupled with other changes to the project (discussed in the next section), the revised contract permitted the Department to complete the project while remaining within the overall approval level of \$659 million. In Part III of its Estimates for 1996–97, the Department reports the cost of CAATS at this approved value (\$659 million) plus an additional \$75 million in associated costs for training, installation and leasing.

24.89 Exhibit 24.6 presents a breakdown of project costs. The first column presents the original EPA cost ceiling as approved by the government for CAATS in November 1989. The second column gives the EPA costs as proposed by the Department and approved by the government in September 1995. It also includes certain additional costs to arrive at a fair statement of the total project cost for the reapproved project, calculated on a basis consistent with the original EPA. These additional costs represent two types of costs: first, those costs included in the original contract and thus in the original EPA; and second, costs that must be incurred in order for the CAATS system to operate.

24.90 The most significant item in these additional costs is a pair of leases for the hardware and commercial software for

CAATS valued at \$176 million (see line 10 and note 3). Under the original contract, the prime contractor was required to design, assemble and supply these items as part of the contract deliverables. Under the renegotiated contract, the contractor was relieved of the obligation to pay for the items as part of the contract and instead the Department was to lease them from a third party. The capital price of the items to be furnished under the main lease was capped at \$103 million and the contractor is required to furnish them at that price. According to

the Department, should the cost of the items, the requirements of the software or any other changes not explicitly directed by the CAATS Project Office cause the price to rise above the cap, the excess costs would be on the contractor's account. Additionally, the Department has informed us that the lease was structured in three stages in order to minimize the financial exposure of the Crown in the face of both the likelihood of the project being transferred to Nav Canada, and the continued technical risk of CAATS.

Exhibit 24.6

CAATS: Comparison of Effective Project Approvals

	November 1989	September 1995
1. Contract ¹	\$376,638,900	\$500,000,000
2. Engineering Change Proposals	\$86,966,000	\$15,805,147
3. Foreign Exchange	\$2,000,000	\$21,194,853
4. Total Contract	\$465,604,900	\$537,000,000
5. Contingency	\$71,229,588	\$12,283,632
6. Contracted Engineering	\$47,340,849	\$34,857,448
7. Project Management	\$74,482,310	\$70,070,000
8. Inflation		\$4,446,567
9. Official EPA	\$658,657,647	\$658,657,647
Additional Costs ²		
10. Leases of Hardware & COTS ³		\$176,118,451
11. Installation		\$9,000,000
12. Testing		\$4,000,000
13. Software Licences		\$10,000,000
14. Training		\$18,000,000
15. Subtotal of Additional Costs		\$217,118,451
16. Full Cost of CAATS Project	\$658,657,647	\$875,776,098

¹ The contract cost is reported on the basis of the value used in the respective government approvals of the EPA.

² These additional costs represent costs under the revised contract for items that were taken out of the original contract but that must still be incurred as an integral part of CAATS because they are essential to the operation of the system, and other costs recognized by the Department as attributable to the project.

³ This figure includes approval for two leases. The first lease is for hardware and software and includes capital items valued at \$90 million, a fee paid to the prime contractor to administer the lease of \$14 million, and financing costs of \$60 million expressed on a current dollar basis. The second lease is for the voice switch for a total of \$12 million.

24.91 The leased hardware and software are essential to the operation of CAATS and, in our view, the omission of these costs and other like costs from the revised EPA results in the true cost of CAATS to the Crown being understated by \$217 million (line 15). In preparing Part III of its Estimates, the Department followed the convention of reporting for Major Crown Projects the following: the effective project approval (\$659 million) and only those additional costs that would be incurred to the end of the main contract (\$75 million). However, in doing this, the information provided suggests that the renegotiated contract was achieved with no material increase in the cost. As a consequence, this presentation results in Parliament not being fully informed of the real cost of the decision to rebaseline the CAATS project.

Declining content, rising price

24.92 As a result of the negotiations, significant changes were made to the scope of the project (changes in what the software would do), the hardware to be delivered and the price. The price of the contract grew by \$73 million, from \$427 million before rebaselining to \$500 million afterwards. Exhibit 24.7 presents, in summary form, the information prepared by the departments (Transport and Public Works and Government Services) for consideration by the government in seeking its permission to enter into the new contract and to justify to the government the increase in the price of the contract. This information is drawn from a more comprehensive document describing a number of aspects of the restructuring of the contract and the leases.

24.93 As indicated earlier, one of the major changes in the contract, resulting from the rebaselining, was to take the

purchase of the hardware and some related commercial software out of the contract and to set up a lease for the computers, work stations for the controllers and some of the software. In addition, a number of features were removed, such as the ability of the system to propose possible resolutions to potential conflicts between aircraft. The scope of the contract was also reduced significantly by the decision to implement CAATS at 23 towers instead of the 60 originally proposed. The Department believes that the removal of certain of the features, such as conflict resolution, from the contract, had the benefit of greatly reducing the overall technical risk associated with the CAATS project.

24.94 The items removed were presented by the departments to the government as having a price of \$227 million (line 14). In arriving at this figure, the price of the hardware removed from the contract was shown as approximately \$92 million (note 2). We were concerned about the extent to which that figure represented the correct price of the hardware removed. When we asked for a listing of the hardware prices, based on the price of the items at the time they were contracted for, we were informed that none was available.

24.95 We would have expected that before entering into negotiations to remove the hardware from the contract deliverables, the Project Office would have established the original price of the hardware in the contract and the price of hardware added through contract amendments. We anticipated that this would have been done so that the Department could ensure that it received full credit from the contractor for the deletion. We found that this had not been done and that the Department did not know the original hardware prices.

24.96 Accordingly, we used available information and a variety of approaches to estimate the price of the hardware at the time it was put into the contract. Our analyses yielded a range of estimated prices and, to be conservative, we have chosen to use the lowest figure (\$103 million). This means that the price

of the items removed from the contract is understated, we estimate, by \$12 million (line 19 and note 2).

24.97 The decision to lease the hardware and certain items of the COTS (commercial off-the-shelf) software rather than purchase them through the contract

Exhibit 24.7

**Price Justification for the CAATS Rebaselined Contract, Prepared by the
Departments for Consideration by the Government, September 1995**

1. Price for the contract at rebaselining		\$ 426,967,596
Items added to the contract		
2. Items traced to ECPs in the contract	\$ 139,357,582	
3. Attributed to ECP 232 ¹	\$ 187,226,521	
4. Other items	<u>\$ 37,065,973</u>	
5. Subtotal		\$ 363,650,076
6. Charges levied by contractor		\$ 15,471,000
7. Total additional costs		\$ 379,121,076
8. Price after all additional items		\$ 806,088,672
Charges waived by contractor		
9. Interest and preparation costs	(\$ 15,471,000)	
10. Removal of all profit	<u>(\$ 64,000,000)</u>	
11. Subtotal		(\$ 79,471,000)
Items removed from the contract		
12. Hardware and COTS to the lease ²	(\$ 103,499,146)	
13. Software, services and functionality	<u>(\$ 123,537,119)</u>	
14. Subtotal		(\$ 227,036,265)
15. Total of all price reductions		(\$ 306,507,265)
16. Final justified price for rebaselined contract		\$ 499,581,407
17. Final justified price rounded to		\$ 500,000,000
However:		
18. "Items added" included ECP 232, rejected	(\$ 187,226,521)	
19. Price of hardware removed is understated in "Items removed"	(\$ 11,699,400)	
20. Hardware and COTS software in ECPs (line 2)	(\$ 18,986,855)	
21. Subtotal		(\$ 217,912,776)
22. Price of remaining items in the contract		\$ 282,087,224

¹ This item represents the price for Engineering Change Proposal 232. This proposal was rejected during contract talks. The price of the proposal remains in the price justification because its inclusion was part of the cost of settling past differences between the Crown and the prime contractor.

² This figure breaks down into \$91.7 million for hardware and \$11.8 million for COTS software. The price of the hardware to be under the original contract, including amendments up to rebaselining is, we estimate, \$103 million – approximately \$12 million higher than the price reflected here.

affected not only the price to be removed from the contract, but also the pricing of several of the new engineering change proposals (ECPs) that were added to the contract. We found that while items priced at \$19 million (line 20) were removed from ECPs to be leased instead, the price of those items was not removed from the ECP prices (line 2) that were used to justify the contract price. As a consequence, the price of the new ECPs (line 2) is overstated by \$19 million in the material presented for the government's consideration.

24.98 At the same time, changes in the approach and in the needs of the Air Navigation Service led to new elements and costs being added to the contract. These included costs such as \$54 million to be incurred as a result of changing the approach to the transition from the current control system to CAATS. In total, the cost of these additions to the contract was reported to the government as \$364 million (line 5). However, this amount includes \$187 million for an engineering change proposal — ECP 232 (line 3). Our inquiries have shown that during the negotiations for the rebaselined contract, a decision was made to reject this proposal.

24.99 According to the Department, ECP 232 is not properly an ECP, but rather is a claim to be paid an additional amount for the costs of work arising from an earlier engineering change proposal. That proposal (ECP 60R4) had been incorporated into the contract as part of Amendment 10 at a price of \$12 million. The work related to the preparation of a series of what were called operational requirements definition documents. In ECP 232, according to the Project Office, the contractor was asking for additional funding as the work had become broader in scope than anticipated.

24.100 The Department has informed us that it rejected the ECP because it did not wish to accept any liability for the charges made by the prime contractor in the claim. Accordingly, the Project Office made no attempt to verify any of the financial data in the claim in order to assess whether the work done justified the price asked. Nonetheless, in the interests of continuing the contract, it decided that it wished to credit the contractor in the price negotiations with an amount equivalent to the price (\$187 million) claimed in the ECP.

24.101 This item, the most costly by far of the items justifying the price increase, was presented to the government as part of a list of ECPs representing new value to be added to the rebaselined contract. In fact, it was not a new ECP; it was included in the settlement made without admission of liability and represented part of the cost of resolving the differences between the Crown and the prime contractor.

24.102 In sum, our review of departmental documentation including the contract price justification, prepared by the departments, led us to conclude that the justification did not present the full price of the hardware and COTS software removed (\$92 million as opposed to \$122 million for a difference of approximately \$31 million (lines 19 and 20)). Additionally, the contract price justification did not adequately disclose the nature of the \$187 million addition to the price attributed to ECP 232. This means that our analysis suggests that the government agreed to a contract price of \$500 million on a contract where a consideration of the price of the items removed from the original contract and the cost of the items added would only justify a price of \$282 million (line 22 and note 2).

24.103 In our opinion, the material prepared for consideration by the government in approving the revised contract should have clearly shown that the revised contract price of \$500 million included a component that represented the cost to the Crown of putting the contract in good standing, settling all past differences and disputes among the parties to the contract, and receiving from the contractor a formal release to that effect. While it is not possible to calculate the exact amount, our review of departmental documentation, the price justification and discussion with management leads us to conclude that the settlement cost was approximately \$200 million.

The Role of the CAATS Project Office

24.104 The CAATS Project Office is led by a Project Director who is appointed by Transport Canada. It also includes a number of staff from Public Works and Government Services Canada who are responsible for the legal and contractual elements of the project. In the case of CAATS, the role of the Project Office is to act on behalf of the government and, more specifically, the Air Navigation Service, to acquire the necessary hardware and software to meet the specifications in the contract. Because the contract in this case is a “firm fixed price” contract, the role of the Project Office is a relatively limited one. First, it must validate the design proposed by the prime contractor to ensure that it meets the specifications in a way that is compatible with the larger air navigation system of which CAATS is to be a part. Second, it must monitor the project and control the flow of cash to the contractor. Finally, it must verify that CAATS, as built, meets the specifications and is safe to use for air traffic control. We looked at the extent to which the

Project Office fulfilled certain aspects of each of these areas of responsibility.

Design validation

24.105 There was little by way of a system design at the outset of the contract. The capabilities that CAATS was to achieve were established, but the design issues of how those capabilities were to be achieved were not specified at that point. These issues, however, were a key part of the early stages of the contract. In the system design process, it is the role of the Project Office to do two things. First, it must communicate the specifics of the client’s (the Air Navigation Service) needs to the prime contractor. That is, it must be able to clarify to the contractor, for example, what a conflict prediction function would mean in the context of Canadian air traffic control practices and the management of Canadian air space. Second, the Project Office must assess the design proposals prepared by the prime contractor to ensure that they will fully meet the contract requirements and will integrate safely and functionally into the existing system.

24.106 We observed that throughout the project, the approach of the CAATS Project Office to the design validation was responsive, based largely on reacting to the proposals and questions of the prime contractor. Given that the lead role in the contract lies with the prime contractor, who is responsible for preparing and implementing the design, we would have expected a certain level of responsiveness in the role of the CAATS Project Office. However, the Project Office should also have had a plan to work with the prime contractor to achieve closure on the design issues by clearly communicating the requirements of the air navigation system to the prime contractor. When we asked for such a plan, staff indicated that a

strategic plan for the Project Office had never been prepared.

24.107 The CAATS project had been under way for nearly five years in the fall of 1995. Yet at that time there were still six major (and many more minor) unresolved design issues. According to the prime contractor, the failure to achieve closure on these issues had significant effects on project progress. The unresolved issues included matters as fundamental as the interface between the radar data processing system (part of the existing and ongoing Air Navigation Service) and CAATS. Given that one of the fundamental purposes of the CAATS project was to integrate the information from the radar data processing system with flight plan information, the failure to resolve such a central issue for the whole system, and similar issues, was an indication of the problems of the Project Office in achieving its objectives in design validation.

24.108 To respond to this problem, the CAATS Project Office began, in late 1995, to establish what it called integrated product teams. This involved assigning Project Office staff to work in tandem with their prime contractor counterparts to try and expedite the resolution of key design problems.

24.109 We observed that in the period since rebaselining, the CAATS Project Office has had some success in resolving many, but not all, of these design problems.

Monitoring progress

24.110 Another key role of the CAATS Project Office is to monitor the progress of the project. This involves two types of activities. First, the Project Office needs to work with the prime contractor to develop a performance measurement system that

can be used to monitor progress against both cost and schedule. Second, in projects such as this, which involve significant technical and production risk, the Project Office is expected to have in place a process to monitor project risks on an ongoing basis and to identify steps that it can take to mitigate identified risks. Before rebaselining, there was little formal activity carried out in the Project Office to address either responsibility. However, since rebaselining, steps have been taken to respond to both.

24.111 Performance monitoring. The prime contractor has put in place a project performance monitoring system called an "earned value system". According to the system description provided to the Project Office by the prime contractor, the contractor's earned value system has most of the critical attributes of the types of systems recommended by the Treasury Board Secretariat for such projects. The Project Office receives from the contractor monthly reports on progress against plans for the project as a whole and for subcomponents of the projects. In addition, individual managers receive progress against plan information on a weekly basis. However, the overall project information provided to us by the Project Office was often between six and eight weeks out-of-date by the time it was received and the weekly information appeared to be two to three weeks out-of-date. Project Office staff informed us that they have performed extensive checks on the reliability of the information coming from the system and are satisfied that the information is sound.

24.112 Risk assessment. We were informed that before rebaselining, risk analysis was not part of the management process in the Project Office. However, since rebaselining, the Project Director has appointed a risk manager who is

producing a monthly series of risk analyses of the project.

Managing the cash

24.113 Managing milestones. The original contract established a series of milestones, or technical achievements, with corresponding dollar values. The milestones were to be verified by the CAATS Project Office using predefined checklists. While the prime contractor was working toward a milestone, it was to be reimbursed for costs incurred up to 75 percent of the total value of the milestone. If the milestone was not met at the scheduled time, payment was to be stopped until it was completed. At that time, a further 20 percent of the milestone value could be paid, with the remaining 5 percent to be paid on completion of the contract.

24.114 Under these circumstances, control by the Project Office over the milestones was critical to ensure some degree of correlation between proven progress and the Crown's growing financial exposure. However, problems with milestones were evident from the start of the contract. Milestones were consistently allowed to be passed with significant lists of outstanding items attached. Indeed, some items were passed from milestone to milestone without ever being resolved.

24.115 The Department was to complete a checklist to assess the completion of each milestone. For the first milestone, System Design Review (for which \$24 million was paid by January 1991), we were informed that the Department did not use the 38 pages of checklists required for this review, but paid for the milestone nonetheless.

24.116 A similar situation arose at the second milestone. Its checklist shows that

half of the milestone, relating to interface requirements, was not completed.

However, a certificate of completion was issued and the 20 percent milestone payment was made.

24.117 This practice leads to a "bow wave" effect whereby each successive milestone becomes more difficult to achieve than was intended, and the list of postponed work grows, increasing the likelihood of project failure. At the same time, the gap between the actual value of the work achieved and the amount of work the Crown had paid for grows as well, further increasing the risk of project failure.

24.118 On four significant occasions prior to the rebaselining, 75 percent of the milestone value had been paid for, yet the milestones were not delivered. On each occasion, the government stopped making payments to the contractor. However, the resolution in each instance was ultimately to amend the contract and to restructure the milestones by shifting more of the requirements from the current to future milestones, thereby permitting payments to resume and the project to proceed.

24.119 The initial stop-payment was issued in October 1991, when the prime contractor had reached the 75 percent payment limit of the second milestone. At that time, some \$56 million had been paid. The stop-payment was issued in October 1991 and the second milestone was not met until November 1992 when \$16 million, representing the balance of its assigned value (less holdback), was paid. This payment was made possible only because of an amendment to the contract that changed the milestone schedule.

24.120 From November 1992 on, the CAATS Project Office began a pattern of paying for one milestone and, at the same time, paying 75 percent of the next

milestone because the prime contractor's progress claims already exceeded that amount. An example is the case of the second milestone, as discussed in paragraph 24.119. In November 1992, a payment of \$16 million was made based on its completion. At the same time, a payment of \$9.1 million was made representing progress claims for 75 percent of the price of the third milestone, which was also eventually late. This payment process continued until 1994 when, after payments had again been suspended, it was decided that the whole contract had to be renegotiated. The cumulative amount paid then stood at \$230 million, out of a contract price that was then \$419 million.

24.121 Milestones restructured. Under the rebaselined contract, milestones remain the critical point for payment control. As before, each milestone has a pre-established value. However, between milestones, progress payments are based on dividing the value of the milestone into roughly equal monthly amounts. These amounts are then modified by applying an index intended to reflect progress in the work. If progress for the payment period is less than planned, the payment is reduced and the amount of the reduction is held back until the milestone is completed. Once a milestone is missed, payment is stopped until the milestone is completed. In lieu of a cash holdback, the rebaselined contract requires the prime contractor to maintain an irrevocable letter of credit in favour of the Crown in an amount equal to five percent of the cumulative amount paid under the contract.

24.122 Since rebaselining in the fall of 1995, the prime contractor has successfully met a series of smaller milestones. The most recent — milestone 10 — was delivered slightly late, at the end of March 1996, and was

deemed complete. However, significant elements of that milestone remain to be resolved. Finally, in the summer of 1996, when it became clear that the next milestone would be missed by several months and that the contracted delivery date of the final product was again in danger, contract renegotiations were begun again. One feature of the discussions was a further restructuring of the milestones.

Verification and safety

24.123 Verification is achieved by various means. The third key function of the CAATS Project Office is to verify that the system, as built, fully meets the specifications and is safe for use in "live" air traffic control applications. To achieve the required degree of assurance in a system of this size (over 600,000 lines of computer code) and complexity (involving 23 commercial off-the-shelf (COTS) software products), various approaches are necessary. Most experts in the field of software testing now believe that for systems of this size, assurance cannot be achieved by testing alone; the possible set of permutations and combinations of events is so large as to be practically infinite. As a result, verification is usually achieved by combining approaches, such as ensuring that the computer code is written in a disciplined and well-documented way; applying analytical techniques to the computer code that has been written; and testing programs at successive stages of development, from the subroutine level up to the fully integrated system.

24.124 Although we discuss verification as the last function of the Project Office, it is by no means only an end-of-the-project task. If proper assurance is to be achieved, we would expect that the verification process would begin in parallel with design validation, and continue through

the development of a verification plan by the Project Office. Such a plan would classify program functions by their criticality, establish accordingly the degree of assurance that the Project Office desires from the verification of each function or combination of functions, and establish the actions and tests to achieve that assurance.

24.125 No overall plan. When we asked the Project Office for its plan to achieve such assurance, we were informed that it did not have one. We were further informed that the prime contractor follows a disciplined and well-documented software development process that includes a series of reviews as each unit of code is designed, written and tested. Project Office representatives are permitted to witness all of these activities and do so on a selective basis. The contractor has also developed a series of other plans for testing as program integration takes place, testing once the system is assembled and, finally, testing once the system has been installed. The Project Office representatives review, suggest changes to and approve these plans, and again are permitted to observe all aspects of these tests.

24.126 The CAATS Project Office had not established the desired level of assurance for determining the degree to which the system fulfills the specifications, nor could it show how its review and observations would ultimately lead to achieving such assurance. Accordingly, we conclude that the Project Office has not established the degree of assurance it needs to achieve from its verification activities, nor is it currently able to ascertain what level of assurance it will receive from the activities that it and the prime contractor are, and will be, carrying out.

24.127 Importance of verification for safety-critical systems. Verification is an important activity of the Project Office for any software development project to ensure that the Crown receives value for the money paid. However, the importance of verification rises sharply when the software, or parts of it, are critical to safety. CAATS is a safety-critical system and thus assurance of system safety is of paramount importance. In operation, CAATS will be the controllers' sole source of much of the information they need to safely route air traffic and to prevent losses of separation between aircraft. If that information is wrong, for any reason, then the likelihood of an accident and the potential for loss of lives increases.

24.128 In spite of the fact that CAATS is a safety-critical system, the CAATS Project Office has not been able to provide any evidence that it has initiated any independent safety process or hazard mitigation plan of its own. Although the expertise in air traffic control systems and their safety resides within the Department, we were informed that the Project Office has no documented plan to deal with system safety. While it has a representative on the System Safety Working Group, which is part of the contractor's safety process, the Project Office is relying almost completely on the prime contractor for safety of the delivered system.

24.129 Management support needed. Good safety practices must be supported by top management to foster the culture necessary for an effective safety program. One of the ways management demonstrates its commitment is by appointing a manager with the authority and mandate to ensure that safety is given the necessary attention and priority. In a project of this scope and complexity, we

would have expected the appointment of a full-time safety manager, reporting directly to the Project Director.

24.130 Following the August 1995 retirement of the Project Office staff person responsible for performance engineering and system performance, performance and safety responsibilities were transferred to the Software Engineering Manager, and the responsibilities for reliability, maintainability and availability and for quality assurance were transferred to the Systems Engineering Manager. With this division of responsibilities, two individuals working in separate parts of the Project Office have each spent part of their time working on safety-related issues. However, in September 1996, the CAATS Project Office announced the appointment of a Safety Manager.

24.131 Some efforts made. System safety has not been wholly ignored. In 1990, the prime contractor developed an initial safety plan, titled the "Reliability, Maintainability and Availability (RMA) Program Plan". In 1992, the contractor engaged a consultant to evaluate the existing safety of the CAATS project, and to propose a new direction for future work in this area. The consultant's report provided an evaluation of safety for the CAATS project, a short description of state-of-the-art safety analysis, a list of recommendations on how to perform future RMA tasks, and a list of suggestions on how to modify the 1991 version of the RMA Plan. The report also described a number of items that the consultant considered to be responsibilities of the CAATS Project Office and identified specifications that the prime contractor needed from the Project Office in order to define the program safety requirements better. These included such things as: formal

specifications for the definition of functions; data flows and data storage; the identification of critical functions with the safety objectives stated for them (by stating controllers' responsibilities, definitions of hazards and severity of hazards, and by performing a hazard analysis on the air traffic control system); a procedure to test the critical functions, verifying that the controllers would actually use the system for its intended purpose; and an "exhaustive" review of documentation to ensure consistent, unambiguous specification of critical functions.

24.132 The CAATS Project Office was made aware of this report in 1993, and we expected that it would have responded by producing the analyses recommended by the consultant. However, the Project Office has not responded in any way to the recommendations.

24.133 The prime contractor's RMA Plan has been amended since the consultant's evaluation, with the most current version (according to the Department) being the August 1995 revision now titled "Safety Case". Our review of that plan suggests that it is quite complete, based on the project description of the day. However, the rebaselining of the project was only partially completed at the time the document was prepared. Several key areas in the document contain notes to the effect that it will need to be revised to reflect the new baseline when that is established. Unfortunately, the rebaselining has substantially changed many parts of the project with the consequence that the 1995 plan will need to be updated to apply to the project as now defined.

24.134 Use of COTS software products increased. The planned use of COTS (commercial off-the-shelf) software products has escalated tremendously as

the CAATS project has been redefined. Most COTS software products are designed for non-safety-critical use and come with very limited warranties. Further, many of these products are designed as either stand-alone programs with little, if any, consideration of operability with other applications or as programs designed to operate in a limited environment with a few other programs. It will be extremely important that the individual and integrated responses from performance testing of COTS software products are carefully studied initially and, for each subsequent version released, before implementation in the functioning system. Evaluations of COTS software products must be frequently revisited, since the project duration has already outlived some of the products that were available at the first writing of the RMA Plan.

24.135 Conclusion. The current approach being taken by the CAATS Project Office to system verification and safety appears to be relying very heavily on observing the testing by the prime contractor. Extensive testing of the system may aid in gaining assurance that the required functions exist in the system, but it is unlikely to provide adequate assurance of the installed system's overall reliability and safety.

24.136 The CAATS Project Office has not described any supplementary process to gain assurance that the system will operate reliably, consistently, over a long duration, and at an acceptable level of performance for critical functions.

Subsequent Events

24.137 On 19 September 1996 the CAATS Project Office and the prime contractor completed their negotiations in the most recent attempt to bring the contract into good standing. Their

agreement, if approved, will become Amendment 18 to the contract. The most significant change is the moving of the planned delivery date back six months from July 1998 to January 1999. If this date is met, CAATS will be delivered some 41 months later than originally planned. There are minor price increases in the contract, for engineering changes, and in price of the equipment to be leased to accommodate increases in equipment quantities. To improve payment control, the number of milestones has been increased and their value, on average, decreased. The assignment of the contract to Nav Canada remains a matter to be resolved between Nav Canada and the prime contractor.

Transport Canada's response: The Department definitely agrees that CAATS has to date been a very problematic contract. When it was apparent that the CAATS project had encountered serious problems, Transport Canada took decisive action to correct them and is still doing so. While active consideration was given in early 1995 to cancelling the contract, we made a business decision to proceed with a fixed-price contract. This approach was designed to limit costs while still ensuring that there would be a functional product at the end of the contract.

The audit only refers to the role of the Department in managing the contract and does not refer, directly or indirectly, to the role of the contractor. It is the view of the Department that a share of the problems belongs to the contractor. The Department has to date needed to take corrective action not only to get its own house in order but also to ensure timely and effective delivery of milestones and key products by the contractor.

The audit attempts to make a direct comparison of the prices and costs in the contract prior to its renegotiation in October 1995 with the prices in the revised contract. The Department took a fixed-price approach and negotiated a

global price within which all aspects of the revised contract had to be considered. The adjustments that had to be made by both sides were defined as a package and, as a result, it is extremely difficult to make a direct comparison of the numbers before and after the rebaselining of the contract.

We acknowledged that the costs associated with putting the contract in good standing could have been more clearly delineated in the contract documentation. However, we believe we fully disclosed the complex changes to the contract, including the settlement of claims.

With regard to the issue of system safety, it is essential to recognize that system safety engineering for air traffic management systems such as CAATS is a new and evolving discipline. As the software functionality is developed, it will be tested against established safety criteria. The bottom line is that the system will not be implemented unless we are assured that it is safe.

In general, we agree with many of the conclusions reached in this audit but we strongly object to the allegations that the facts were misrepresented, and that all the blame seems to belong to the contractee and none to the contractor.



About the Audit

PART I — Key Issues for Success

Scope

This year's audit examined four more major systems under development:

- the Canadian Forces Supply System Upgrade (CFSSU) at the Department of National Defence;
- the Tactical Command, Control and Communications System (TCCCS) also being developed by National Defence (including four separate but interdependent software projects that we reviewed in more detail);
- Transport Canada's Canadian Automated Air Traffic System (CAATS); and
- the Real Property Services (RPS) set of projects at Public Works and Government Services Canada, which consists of 11 separate but interdependent projects, including the Real Property Inventory system that we reviewed in more detail.

As part of our audit, we also reviewed the status of the four projects that we examined last year:

- the Income Security Program Redesign (ISPR) at Human Resources Development Canada;
- Transport Canada's Integrated Departmental Financial and Materiel Management System (IDFS);
- the Common Departmental Financial System (CDFS) at Public Works and Government Services Canada; and
- the Public Service Compensation System, also at Public Works and Government Services Canada.

Although procurement/contracting aspects of large systems development projects have a significant impact on the ultimate results of the project, our audit did not include a review of the procurement process for information technology, as it will be covered in a future audit.

Approach

Our audit approach was the same as last year's, which was described in Chapter 12 of the October 1995 Report. In examining the implementation of large-scale systems under development, we again conducted a risk assessment of the management of individual projects to determine what hinders or facilitates their successful completion and, as a corollary, to determine what lessons can be learned and shared among other projects.

PART II — CAATS: Some Matters of Concern

Scope

As required by the Treasury Board, CAATS – as a Major Crown Project – has a Project Office known as the CAATS Project Office (CPO). The CPO is led by a Project Director from Transport Canada and assisted by staff from Public Works and Government Services Canada (PWGSC), who are respectively responsible for acting as the technical and contract authorities for the project. Our audit work focussed on the operations of the CPO and on how it was carrying out the key responsibilities assigned to it. As for all such projects, a central part of the role of the Project Office is to act as an interface between the prime contractor and the departmental client for the project, and our work inevitably touched at many points on the work of the prime contractor. However, we did not audit the prime contractor and we have no opinion to offer on its actions. Where our work touched on that of the prime contractor, we were only concerned with the appropriateness of the government's actions.

Objectives

We believe that it is important for Parliament to know both what is being delivered by CAATS and what the full cost will be. Accordingly, one objective was to attempt to determine and report what Transport Canada anticipates will ultimately be delivered as CAATS and what the cost of those deliverables will be.

The role of the CAATS Project Office is to have built, on behalf of the Air Navigation Service (ANS), an automated air traffic control system that meets the functional needs of the ANS and that is safe and efficient to use. We have identified three critical jobs that the Project Office must do to accomplish this. First, it must communicate the needs of the client to the prime contractor and assess the contractor's design proposals for their technical and operational suitability and compatibility with the rest of the ANS system. This task is sometimes referred to as design validation. Second, as the government's representative in dealing with the prime contractor, the CAATS Project Office must monitor the progress of the contractor to ensure that it is satisfactory and ensure that funds are paid to the contractor only when they are due under the contract. Finally, the Project Office must be able to assure the Air Navigation Service that the product delivered is safe, fit for use, and fully meets all of the specifications of the contract. This is sometimes called verification.

We examined these areas to be able to report on matters that, in view of the circumstances surrounding CAATS, are of significance to Parliament.

Quantitative information. The quantitative information in this chapter has been drawn from government documents. Historical financial information has been checked for reasonableness but not audited. Cost and future-oriented financial information has been checked against official sources.

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Report of the
Auditor General
of Canada
to the House of Commons

Chapter 25
Canada's Export Promotion Activities

November 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 25
Canada's Export Promotion Activities



November 1996

This November 1996 Report comprises 19 chapters, including “Matters of Special Importance”, as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients’ needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 25

Canada's Export Promotion Activities

Foreign Affairs and International
Trade, and Industry Canada

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Assistant Auditor General: David Rattray
Responsible Auditor: Lewis Auerbach

Canada's Export Promotion Activities

Foreign Affairs and International Trade, and Industry Canada

Main Points

- 25.1** Export sales are essential to Canada's economic health. Our audit concentrated on the export promotion services of the two departments leading the federal effort — Foreign Affairs and International Trade, and Industry Canada. We concluded that Parliament needs to be better informed about the expenditures, outputs, revenues and cost sharing of this effort. This would help ensure that there is no undesirable overlap, that the distribution of expenditures reflects the government's priorities, and that Parliament is kept informed about the progress being made toward the government's objectives.
- 25.2** While we were unable to find conclusive evidence about the direct effects of trade promotion, it is possible to measure the cost effectiveness of specific activities. To do this requires information on costs, and systematic, objective measures of the usefulness of specific activities to business, or measures of their impact. However, both departments need better cost information. They need to obtain systematic and objective feedback to determine the value and utility of more of their key activities.
- 25.3** There are opportunities for other improvements. Trade officers see themselves as adding the most value when they act as brokers and can make useful introductions to possible agents, joint venture partners or distributors. Individual initiative is expected. However, practices vary widely from individual to individual and from diplomatic mission to diplomatic mission. While often appropriate, sometimes this great variety reduces overall efficiency. Wider and more systematic use of practices identified as superior would enhance performance.
- 25.4** Trade officers also spend a significant proportion of their time on activities they view as relatively unproductive. This is because there are no agreed-upon criteria to determine the kinds and extent of service a user is entitled to receive, a situation that is reinforced by the fact that services are free. The two departments need to decide which are core services available to all and how they will be provided, and which are enhanced services available to those who qualify. With respect to charging for services, our comment to the Public Accounts Committee on our 1986 audit of export promotion is still pertinent today: "Cost recovery would not only increase revenues to the Crown but could provide a measure of the effectiveness of the service." The potential benefits of sharing costs with the private sector and charging fees for service have not been fully realized.
- 25.5** A key to successful service is the quality and accessibility of the information and intelligence that the government provides to business. This requires appropriate information tools. Despite recent advances, Foreign Affairs and International Trade needs to plan more systematically how it can use these tools to support its promotion of trade.
- 25.6** In summary, notwithstanding a good reputation for the services it provides abroad, increased globalization and liberalization of trade over the last 10 years, and initiatives already under way in the departments, the federal government needs to further improve its management of, and accountability for, its export promotion and international business development activities. We hope that when we follow up this audit in two years, we will be able to report that there has been substantial progress in dealing with our remaining concerns from 1986 and the more recent ones raised in this chapter.

Introduction

The importance to Canada of exports

25.7 The last decade has seen a move away from a long period of Canadian history when Canadians sought tariff protection from the negative impacts of trade while retaining the advantages. Canada now acknowledges its place in an open world economy: it has negotiated several agreements that liberalize trade, most notably the Uruguay Round of the General Agreement on Trade and Tariffs (GATT), which established the World Trade Organization, and the North American Free Trade Agreement (NAFTA). Canadian exports totalled \$289 billion in 1995 and now represent 37 percent of the gross domestic product,

a dramatic climb from 25 percent in 1990 and the highest of any G7 country.

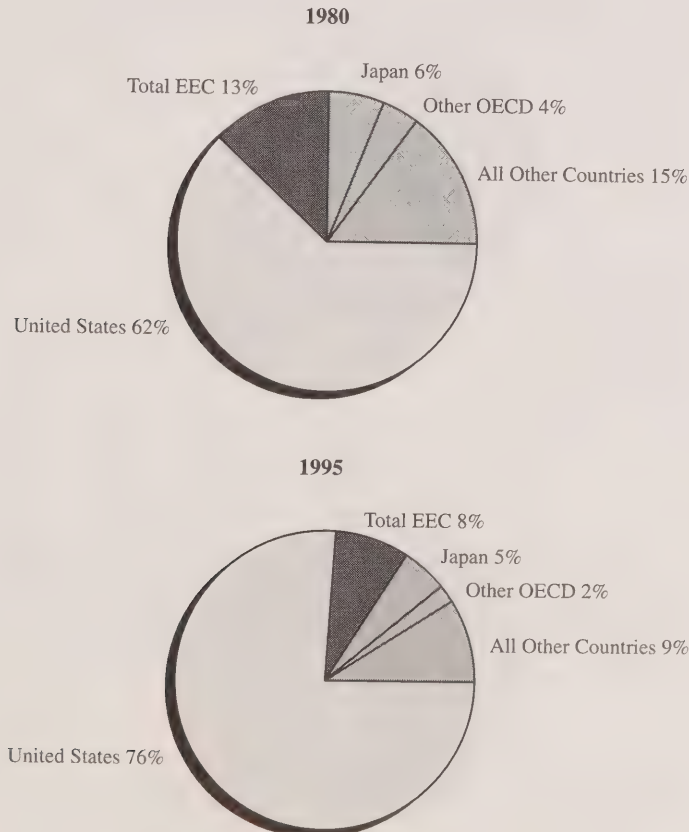
25.8 Canadian exports are concentrated in a few sectors, and the vast majority are shipped to the United States (see Exhibit 25.1). An increasing proportion of these exports are in “value added” sectors like manufactured, finished, and knowledge-intensive products, and in services (see Exhibit 25.2). The government has stated its intention to diversify into such sectors and into emerging markets, and to encourage more exporting by small and medium enterprises.

25.9 Almost 60 percent of the 2.2 percent rate of economic growth in 1995 was due to net exports. Ten years ago, growth was due entirely to domestic

Canada's \$289 billion in exports represent 37 percent of the gross domestic product, the highest percentage of any G7 country.

Exhibit 25.1

Exports of Goods and Services,
by Area 1980 and 1995



EEC – European Economic Community

OECD – Organization for Economic
Co-operation and Development

Source: Statistics Canada

Canada's economic growth will continue to depend on export success.

consumption, investment and government expenditure; net exports were negative (see Exhibit 25.3). Even if domestic consumption increases from its current low level, economic growth will continue to depend to a significant extent on success in selling Canadian products and services abroad.

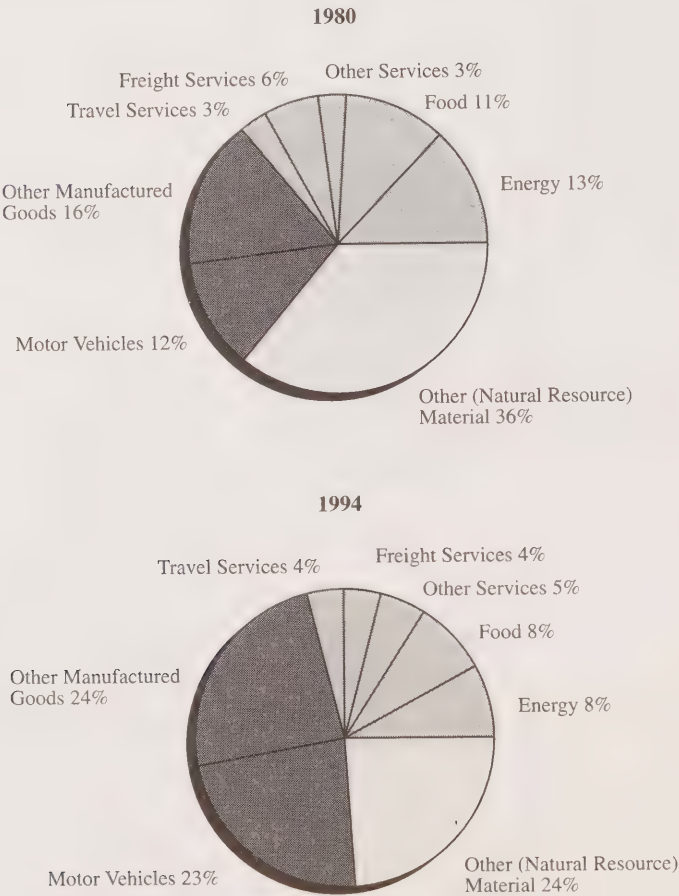
25.10 The goal of increasing exports is directly linked to the government's overall objectives of increased jobs and growth. The government's task is to choose instruments that will best help achieve the objectives. For instance, some exports produce more jobs than others. It is helpful, therefore, to know what proportion of the export sales represent

value added in Canada. It is entirely possible, for example, that a dollar spent by a foreign visitor in Canada may have proportionally more Canadian value added than a dollar of manufactured exports such as a computer or car, which contain a high percentage of imported components. Similar considerations apply to the size of a business. It has not been proved, for example, that new export sales by small companies have proportionally more value added than export sales by large enterprises.

The role of government

25.11 The government has traditionally played a role in encouraging exports. It

Exhibit 25.2
Exports by Goods and Services Class, 1980 and 1994



Source: Statistics Canada

has also encouraged tourism, foreign investment, and the immigration of investors and entrepreneurs. All of these activities bring money into Canada for the purchase of Canadian goods and services. However, many exports take place without the need for any direct promotion of trade by the government. For example, intrafirm trade between United States-controlled companies and their Canadian subsidiaries accounted for 35 percent of all exports in 1992, much of it related to the automobile industry.

25.12 Much of the trade promotion and assistance activity is aimed at new small and medium exporters. Government service to larger firms is more specialized and includes assistance with obtaining financing from interested financial institutions, interventions with foreign parents to retain or attract investment in Canada, and advocacy and market access assistance, when requested.

25.13 The title for the government's export promotion and related activities is the International Business Development Program. The federal, provincial, municipal and private sector participants are members of "Team Canada", a term first used for the Prime Minister's trade mission to China in 1994.

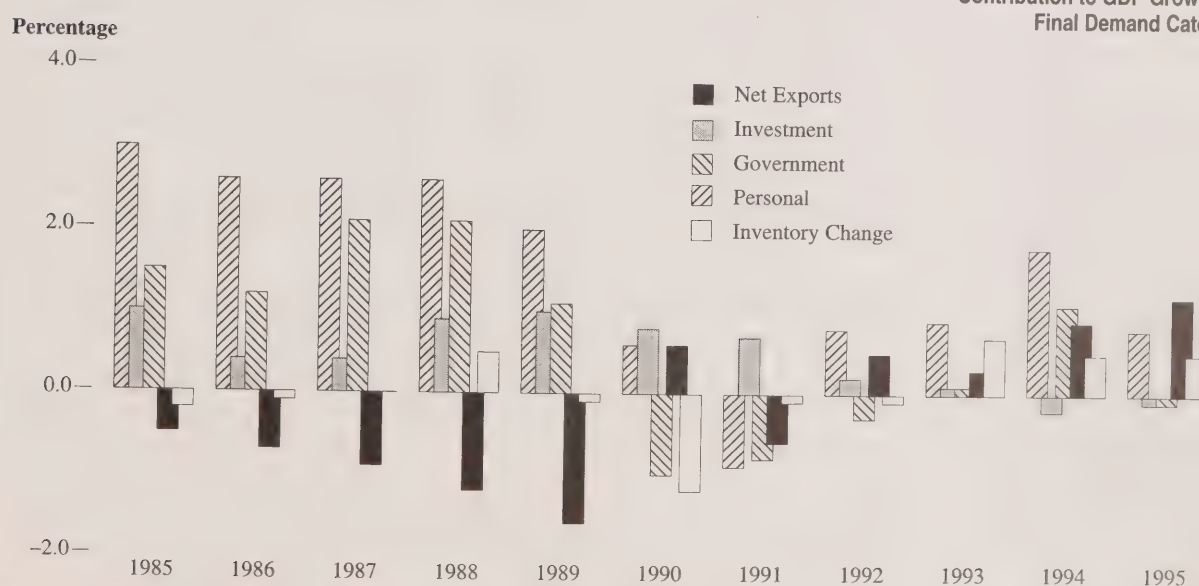
25.14 The federal Team Canada members consist of 21 departments and agencies. Some, like Foreign Affairs and International Trade, Industry Canada, Agriculture and Agri-Food Canada, the regional development agencies, the Business Development Bank of Canada and the Export Development Corporation, provide services directly to exporters. Others, such as Treasury Board Secretariat and the Privy Council Office, play a supporting or co-ordinating role.

25.15 Provinces and some municipal governments also provide services and direct financial support to exporters (see

Team Canada has many players: federal, provincial, municipal and private sector.

Exhibit 25.3

Contribution to GDP Growth, by
Final Demand Category



Note: Inventory Change includes statistical discrepancy

Source: Statistics Canada

Exhibit 25.4). Among provinces, British Columbia, Alberta and Quebec employ trade promotion officers overseas. Quebec has the most extensive trade representation abroad, in six countries; this is down from 17 countries a year ago. Prevention and reduction of overlap is a key domestic objective of the Team Canada initiatives.

25.16 There are also many private sector providers of export-related services, including consulting companies and banks. Larger companies have in-house expertise as well as resident employees in the countries to which they export. Consultation, cost sharing and participation with the private sector are

Exhibit 25.4

Services to Exporters

Exporter or Potential Exporter							
Type of Service Required / Source	General Information	Counselling	Programs / Funding	Seminars / Workshops	Specific Information and Advice	Financing / Selling Terms	Advocacy
International Trade Centre/IC	✓	✓	✓	✓	✓		
Info Centre / DFAIT	✓						
International Business and Communications Branch	✓	✓		✓			
Canada Business Service Centre	✓						
Agriculture Agri-Food Canada		✓	✓	✓	✓		
Business Development Bank of Canada		✓		✓	✓	✓	
Canadian Commercial Corporation					✓	✓	
Other Line Departments	✓	✓	✓		✓		
Diplomatic Missions	✓	✓	✓	✓	✓		✓
Export Development Corporation	✓			✓	✓	✓	
In some provinces, the provincial departments or agencies	✓	✓	✓	✓	✓	✓	✓

Source: Adapted from *Road Map to Exporting and Export Financing*, Government of Canada, 1995

IC – Industry Canada

DFAIT – Department of Foreign Affairs and International Trade

key objectives of the government's trade activities.

25.17 The federal government provides the following services designed to assist exports, tourism and investment:

- problem solving, counselling, and the provision of market information and intelligence, on request or routinely, both formally and informally, to assist Canadian commercial interests abroad;
- advocacy and other, more specific, "market access" interventions when practices and regulations constrain Canadian companies' ability to do business abroad. This is the day-to-day work of facilitating specific arrangements or assisting individual investors;
- financial assistance for market entry or research, including missions and trade fairs;
- loans and insurance through the Export Development Corporation, including concessional financing approved by the Minister of Finance and the Minister for International Trade, and government-to-government contracting and related services through the Canadian Commercial Corporation; and
- trade negotiations to improve access to markets and to facilitate a trading environment based on rules agreed to by all participants. This work ranges from negotiation of agreements like NAFTA to ongoing work in the newly formed World Trade Organization.

25.18 The cost of federal activities in support of international business development is greater than \$375 million a year, not including overhead costs in Canada. The two largest players are Foreign Affairs and International Trade, whose expenditures, including a portion of the costs of diplomatic missions abroad, are over \$250 million; and Industry Canada, which spends about \$69 million.

Agriculture and Agri-Food Canada spends \$27 million.

25.19 Although a Team Canada member, the Canadian International Development Agency is not counted in the above total because foreign aid expenditures are to support the development of third world countries. Trade promotion is a secondary consideration. The Industrial Co-operation Program has as one of its four main objectives "to promote the transfer of Canadian expertise, technology, goods and investments by Canadian corporations [to emerging markets and developing countries] as an integral part of Canada's development program." The budget for this program was \$65.1 million for 1995–96.

25.20 Foreign Affairs and International Trade and Industry Canada offer services in Ottawa and through a network of offices in Canada at International Trade Centres, and in diplomatic missions abroad. Most services are free of charge. However, some require a cost-sharing commitment from companies receiving the service. In addition, contributions may be available to help less experienced exporters defray the expense of trying to enter a new market.

25.21 The key front-line jobs are the Trade Commissioners and the commercial officers. These are the men and women whose key task is to provide assistance to existing and new exporters. Most Trade Commissioners, including those seconded from other departments such as Agriculture and Agri-Food Canada, are employed by Foreign Affairs and International Trade. Of the 606 Canadian Trade Commissioners, 247 serve overseas. In Canada, 22 of the 99 commercial officers employed by Industry Canada at International Trade Centres are Trade Commissioners seconded from Foreign

The cost of federal international business development activities is greater than \$375 million annually.

Most services to exporters are free of charge.

Several recent reports have recommended changes to Canada's export promotion efforts.

Affairs and International Trade. An additional 270 commercial officers abroad are locally engaged by the missions (see Exhibit 25.5).

25.22 On average, a Trade Commissioner serves for three years in a diplomatic mission overseas. This means that about one third of the Commissioners abroad are in just their first year of a posting and may still be getting up to speed. At diplomatic missions we visited in China and Japan, over half speak the local language with some proficiency.

25.23 At diplomatic missions abroad, locally engaged commercial officers report to Trade Commissioners posted from Canada. The percentage of locally engaged trade officers, as a proportion of all trade officers overseas, increased from 50.5 percent of officers abroad in 1986 to 52 percent in 1995. These officers are an essential component of Canada's overseas trade service. Most are citizens of the host country, although occasionally they are Canadian local residents. Frequently, locally engaged officers are long-standing employees who provide continuity, as Trade Commissioners posted from Canada rotate in and out. They are hired for two main reasons. First, they typically have greater knowledge of the local market and language. (However, except for some locally hired Canadians, their knowledge

of Canadian industry and government is significantly less and, where English or French is not a native tongue, their knowledge of English or French is weaker.) Second, they are less expensive.

25.24 Locally engaged commercial officers hold positions of considerable responsibility. For instance, with one exception, all tourism promotion positions in Canada's diplomatic missions abroad are filled by locally engaged staff.

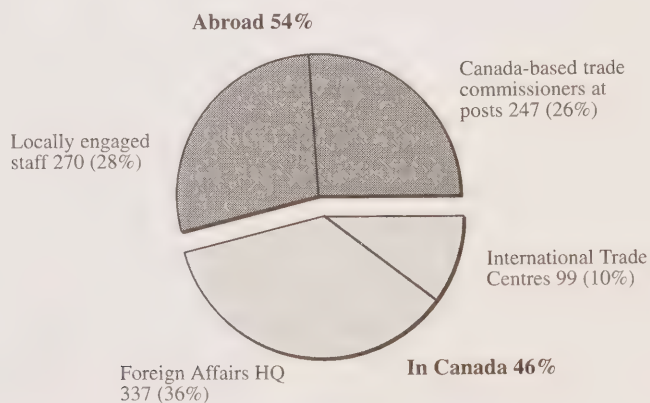
Recent reports on export promotion

25.25 We conducted this audit during and just after several independent examinations of the government's programs that assist business in exporting overseas, and we observed some changes that were made in response to those studies.

25.26 International Business Development — "The Wilson Report". In 1994, a panel of business people reported to the Minister of International Trade on how the Government of Canada should improve its service and achieve economies and greater efficiency. The Minister implemented many of the panel's recommendations. The Chair of the panel, L.R. Wilson, Chairman of Bell Canada Enterprises, has continued to monitor government action on the outstanding recommendations.

Exhibit 25.5

Trade Officers, by Location



Source: Department of Foreign Affairs and International Trade and Industry Canada

25.27 Some action has been taken on recommendations to:

- reduce spending on overhead at headquarters;
- restrict to smaller companies the use of direct assistance for trade fairs and missions;
- focus on key sectors;
- eliminate support for companies bidding on capital projects (large firms are now no longer eligible); and
- require that private sector participation in government-sponsored missions be self-financed (support is now limited to new small and medium exporters).

25.28 Special Joint Committee

Reviewing Canadian Foreign Policy.

The Special Joint Committee Reviewing Canadian Foreign Policy devoted an entire chapter of its report in November 1994 to trade and investment. It recommended that the federal government, in consultation with provinces, “devolve some responsibilities for trade promotion to a more arms-length and preferably joint public-private consortium.” It recommended looking beyond North America, with more emphasis on small and medium enterprises; supplying timely market information and intelligence; and charging user fees based on ability to pay.

25.29 Standing Committee on Foreign

Affairs and International Trade. The Standing Committee on Foreign Affairs and International Trade also conducted related hearings and, in its report of June 1996, emphasized the need for various means of helping small and medium enterprises to become exporters; clearer definition of roles and responsibilities at all levels of government; and better provision of information to the business community.

Focus of our audit

25.30 We undertook our audit of the federal government's activities in international business development, particularly export promotion, to determine whether there is adequate information on their associated costs, revenues, and benefits, and whether they can be managed with greater regard to economy and efficiency. We also wanted to assess whether accountability arrangements for performance and expenditures within government and for reporting to Parliament are appropriate.

25.31 Further information on our audit objectives, approach, and criteria is provided in **About the Audit**, at the end of the chapter.

Observations and Recommendations

Accountability and Cost Effectiveness Information

Reporting to Parliament on government-wide Team Canada effort

25.32 Team Canada goals. In response to the Wilson Report and the Special Joint Committee Reviewing Canadian Foreign Policy, the government announced in 1995 that Team Canada's goals were to:

- build partnerships between the public and private sectors;
- eliminate unnecessary overlap between federal departments and agencies and those of other governments;
- increase the number of active small and medium exporters (specifically, to double the number); and
- diversify into rapidly growing markets and sectors.

25.33 Canada's International Business Strategy is overseen by the Deputy

We expected to see specific targets and measures to determine whether Team Canada goals are being met.

Ministerial Committee on International Business Development. The purpose of this 25-member committee, jointly chaired by Foreign Affairs and International Trade and Industry Canada, is to oversee and prioritize the federal government's efforts to promote exports, investment and other international business ventures. The Committee is to ensure that federal activities are co-ordinated, overlap is avoided, and strategies and priorities are mutually reinforcing. Its activity represents a clear improvement over the situation that prevailed during our previous audit.

25.34 We expected that the government would have specific targets and measures to determine whether it is meeting the Team Canada goals, and that the government would designate either the Minister for International Trade or the Minister of Industry, or both, to report on its performance to Parliament.

25.35 During our audit we found no evidence that progress toward achieving the specific targets for increasing the number of small and medium exporters is being monitored. Nor did we see any measure to determine how many new small and medium exporters have received government services. We understand that systems designed to do this are now being put in place. The Deputy Ministerial Committee has prepared an inventory of federal international business development programs. The Committee noted that there is little overlap in program design, but called for continuing review from the point of view of clients, especially small and medium-sized enterprises. However, we did not see measures of the current degree of overlap between federal and provincial activities, or of the extent to which overlap has been reduced; nor did

we see mention of a specific target for future reduction of overlap.

25.36 The government monitors results toward its goal of increasing exports to emerging markets. However, despite impressive increases in their absolute dollar value, Canadian exports to emerging markets are actually losing share both as a percentage of our total exports and as a percentage of all imports entering those countries. For the same reasons that overall trade success is difficult to attribute solely to trade promotion, this failure to meet the objective of increasing the proportion of our trade represented by emerging markets may be due to factors other than the quality and effectiveness of Canada's trade promotion efforts.

25.37 Canada's International Business Strategy: Get the team to play together and co-ordinate the players. As part of the Team Canada approach, Foreign Affairs and International Trade and Industry Canada oversee the development of Canada's International Business Strategy. The Strategy is an annual 23-part document (an overview and 22 sector strategies) intended to summarize the government's thinking on support for the activities of new and existing Canadian exporters. We found that the process for developing the Strategy and the expectations for contributions from participants are well understood.

25.38 The annual development of the Strategy is intended to be a mechanism for co-ordinating assistance for international business development among different providers and for communicating the results of the co-ordination (see Exhibit 25.6). The published document presents the government's strategy for each sector, together with a list of the activities to be supported by the federal and the provincial governments. To an

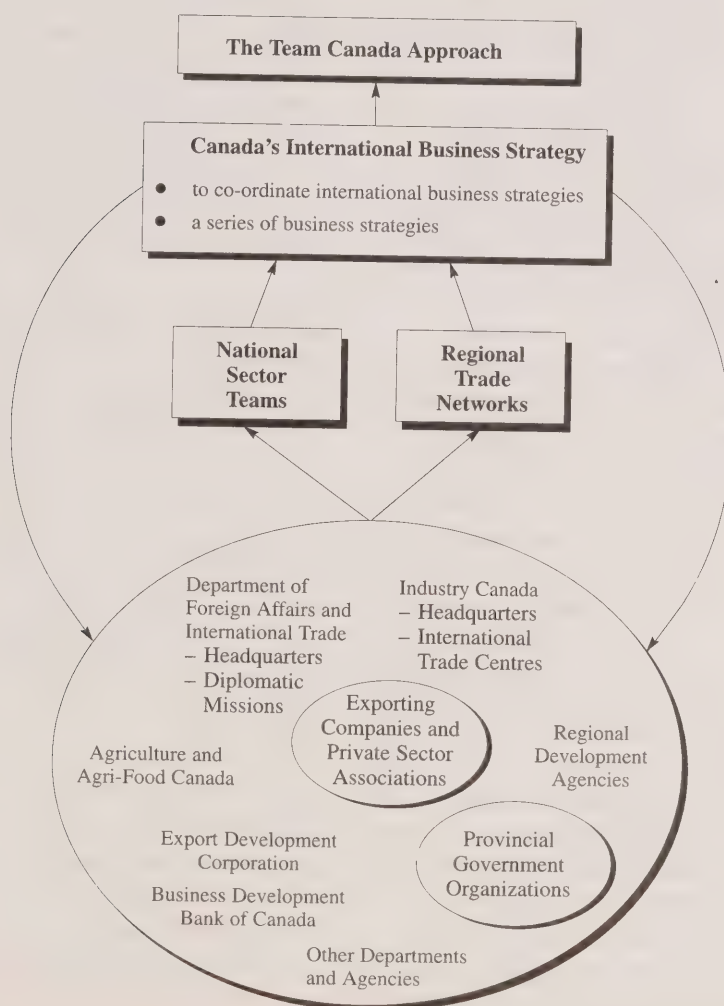
outside reader, however, the sector strategies do not explain why some events are chosen for support and others are not. As well, the overview of the Strategy selects certain country and sector priorities to receive “enhanced” attention. The departments informed us that specifications of the enhanced levels of service were in development and would be complete by the end of 1996. However, we were also told that sectors or countries that are not selected as high-priority would not necessarily receive less attention than before. The operational implications of providing additional service were not specified.

25.39 Two important elements of the process for developing the Strategy are the National Sector Teams and Regional Trade Networks. These groups have representatives from federal and provincial government departments and agencies and the private sector who provide input into the Strategy.

25.40 Despite the extensive nature of the process, Canada's International Business Strategy did not appear to affect what is done at the diplomatic missions we visited. The Department has informed us that workplans for all missions, as well as headquarters, are in fact derived from

Exhibit 25.6

Team Canada



Canada's International Business Strategy is an exercise in consultation, but it does not allocate resources or report on funds spent in pursuit of Team Canada objectives.

this process and that there may be an uneven understanding of how decisions are made.

25.41 The federal government expects International Trade Centres in each of the provinces to use Regional Trade Networks to co-ordinate the ongoing efforts of federal and provincial regional partners, particularly for high-priority sectors and markets. We found that International Trade Centres have a good knowledge of what the others are doing, which facilitates co-ordination of activities and is a step toward reducing overlap.

25.42 Nevertheless, as the departments involved acknowledge, there is still work to be done. For example, each of the International Trade Centres has specific plans for expanding the regional trade networks and for using an account-executive approach and other devices to deliver a more "seamless" service to business. In the follow-up to this audit we will review the progress of such initiatives.

25.43 At this moment, Canada's International Business Strategy does not allocate resources among the players. However, the process for the upcoming fiscal year has been redesigned to allow National Sector Team leaders the final approval of the promotional activities selected for their sectors. This may permit Team Canada participants to influence the allocation of resources within sectors in a way that is both more responsive to Canadian industry and congruent with the overall Strategy.

25.44 **Canada's International Business Strategy is not an accountability document.** The potential benefits of reporting to Parliament on federal efforts in international business development are not being fully realized. The Strategy states government-wide

priorities and objectives for trade and trade promotion. However, there are no reports to Parliament on the extent to which the objectives are achieved and on the funds expended in pursuit of the objectives. While many businesses request hard copies of this free document, it is not clear how the document is used or what value it has to business.

25.45 **On behalf of the federal Team Canada, the Minister for International Trade, in consultation with the Minister of Industry, should inform Parliament about the expenditures, outputs, revenues and cost sharing of the Team Canada International Business Development Program. This report should include measurements of progress toward achieving Team Canada goals so that Parliament can assess whether the allocation of resources appropriately reflects government priorities and whether satisfactory progress is being made toward meeting the objectives.**

Information on results is not compiled systematically and is not sufficiently independent

25.46 The government's export promotion activities provide many success stories. For instance, the government helped Canadian companies to obtain business in meeting the need for housing and building materials after the Kobe area of Japan was damaged by an earthquake in 1995. Similarly, the Prime Minister's trade missions to China, Asia and Latin America are credited with helping to conclude deals.

25.47 Was the government's assistance essential? Did it benefit primarily small and medium enterprises? Can the benefits be measured with precision? Could the deals have been made without government assistance? While the anecdotal evidence often suggests that there are positive

benefits to export promotion, their magnitude is nearly impossible to determine: the causes of international business success are complex and multifaceted. Furthermore, the benefits may be realized only in the future, while the costs are incurred in the present. There are many factors in the success or failure of particular deals; the presence of the Prime Minister and others is just one element.

25.48 We do not expect the government to demonstrate that, overall, spending on export promotion increases exports. Successful exporting depends on many factors other than direct government support. Some are macro-economic and related to Canada's international competitiveness. Others relate primarily to the competitive advantages of specific Canadian firms and the quality of their products and services. Government may also have an indirect impact on firms' ability to compete internationally, through its support of needed infrastructure such as transportation, provision of market information and intelligence, advocacy with other governments, and other trade policy initiatives. We agree, therefore, with those who argue that there is no conclusive evidence about the overall effects of trade promotion.

25.49 At the same time, while measures of success overall are difficult to obtain (see Special Insert on page 25–18), the results of specific trade promotion activities are often measurable. One can determine whether the information supplied was useful, a contact was made, or service was satisfactory. If a charge for participating is levied, it can be compared to the cost of providing the service or product. We verified a sample, from the diplomatic missions we visited, of the descriptions of work that had produced or may produce positive results. In almost

every case, companies were able to comment positively on the value of the service provided. This indicates that results of activities are identifiable and verifiable. Feedback on whether a specific intervention is successful, or fails, is valuable information for management.

25.50 Foreign Affairs and International Trade and Industry Canada do seek feedback on the results of specific events, such as trade fairs and missions. Mechanisms are in place in some locations to monitor local activities and record some results. However, more systematic and independent feedback on results would enable both departments to co-ordinate and allocate resources with a greater understanding of the expected benefits and necessary trade-offs. Where relevant, this information could also be reported to Parliament.

25.51 One way to get a proxy for the commercial value of services and information products is simply to charge for them, or offer them on a cost-shared basis. To some extent, this is already being done (see paragraph 25.78). There are also other ways to get independent feedback. However, we encountered very few attempts to obtain data on whether a market study or other information was of value or whether the answer to an inquiry was useful and used. Obtaining this information need not be a time-consuming and expensive activity.

25.52 Foreign Affairs and International Trade, with Industry Canada, should develop and implement ongoing and independent mechanisms to measure the value and utility of key export promotion activities and programs. The departments should use this information for program management and resource allocation decisions and, where appropriate, for reporting to Parliament.

Export success depends on many factors other than government assistance.

There is no conclusive evidence that, overall, government trade promotion efforts increase exports. But the results of specific activities are often measurable.

Charging fees for services would indicate whether export promotion services have commercial value.

None of the International Trade Centres knew the volume of its activities or the cost of delivering a particular service.

Cost information is lacking

25.53 Common performance measurement tools help management assess whether resources, especially staff time, are being allocated in the best way. We expected that the departments would know whether the services they provide meet the needs of existing and emerging Canadian exporters, are cost-effective, and serve business in a way that is useful, efficient, timely, and consistent over time, reflecting mutually understood levels of service. Such information would be an integral component of accountability information for departments and, ultimately, Parliament to use to assess the performance of export promotion and other international business development

efforts. We concluded that there is considerable room for improvement.

25.54 Neither Foreign Affairs and International Trade nor Industry Canada know the costs, or the value, of the information products and services they supply to exporters. None of the International Trade Centres we visited knew the volume of its activities, or how much it costs to deliver a particular service or product. Depending on the use that is to be made of such information, it need not be expensive or difficult to obtain rough estimates of costs. The centres also do not follow up systematically with clients to determine the relative quality or effectiveness of products.

DIFFICULTY OF RESULTS MEASUREMENT: AN EXAMPLE

We found a number of programs where results have been measured or where policies call for their measurement. Sometimes, however, implementing the policy is difficult.

One example is the Program for Export Market Development (PEMD), which began in 1971. In the industry-initiated part of the program, Foreign Affairs and International Trade made conditionally repayable contributions to Canadian companies and non-repayable contributions to Canadian trade associations, to assist them in activities to increase export sales. In the government-initiated part of the program, the Department organized participation in trade fairs, missions, conferences, seminars and studies. The costs of these events were often shared with the private sector.

In April 1995, the criteria for support to industry were narrowed to focus on smaller enterprises. PEMD became one of the activities initiated entirely by industry and continued to be delivered in the regions by International Trade Centres and the Federal Office of Regional Development–Quebec.

Administration of contributions to trade associations remained at Foreign Affairs and International Trade headquarters. Several related programs for new and existing exporters were combined in a new program, the Program for International Business Development (PIBD). This program, which envisioned a substantial degree of cost-sharing with industry, included the government-initiated activities formerly under PEMD and five other initiatives to support new and existing exporters. Departmental headquarters retained responsibility for the delivery of PIBD and for the monitoring and evaluation of both programs. In 1995–96, the Department paid \$11 million in PEMD contributions and about \$26 million to support PIBD activities.

The most recent program monitoring report covers the fiscal year 1994–95 and predates the current focus on smaller exporters and the establishment of the new initiatives. It states that since 1971, the recipient companies have reported incremental exports of \$13 billion attributable to the Program for Export Market Development. The report also

indicated that repayments of contributions amounted to \$4.3 million during that year, compared with \$3.0 million the previous year. In addition to the published data, the Department sends a survey to recipient companies.

For performance reporting purposes, the sales figures and repayment data, no matter how accurate, do not measure the program's success in increasing exports or the number of new exporters. The difficulty of attributing results to a single factor is the reason why it is difficult to assign credit for export success to the government contribution. More information is needed, such as reliable information on whether, in the absence of the government program, a sale might have been made anyway. However, such data are very difficult to obtain.

At the same time, the data currently collected can be used to a greater extent. For example, when the data on repayments are disaggregated, they can be used to help analyze the relative performance of the different elements of the program. However, we did not observe that this analysis is performed.

25.55 Foreign Affairs and International Trade has begun a study to determine, using a complex activity-based costing model, the costs of four selected products and services. The results of this exercise should be known soon.

25.56 For many years, the Department has used the Trade Tracking System, which collects information about the percentage of officer time devoted to various kinds of activities. It also counts the activities. Thus, for example, the system counts each inquiry answered by officers. Based on our field experience, we are satisfied that these data give a reasonable approximation of the effort required to produce an answer to an inquiry or to assist a mission. This system is now being replaced by the Client Tracking System. The new system will enable the Department to determine what services are being provided to a given Canadian company. This will enable officers anywhere to see what officers elsewhere in the world are doing to help that company. The change from the Trade Tracking System to the Client Tracking System solves one problem, the absence of information about what is being done specifically for individual Canadian companies, but it abandons the collection of information on the allocation of a scarce resource — Trade Commissioner time — which is useful for determining costs of products and services.

25.57 Foreign Affairs and International Trade should, in implementing its new Client Tracking System, re-examine its plan to abandon the elements of its old Trade Tracking System that provide information on the quantity of its outputs and the relative amount of effort required to produce them.

25.58 It is important that clients and the Department know the cost of the services

supplied. As a rough approximation, this information is already available. Using the Trade Tracking System and other departmental data, which take into account only the costs incurred abroad, we calculated that it costs about \$120 for officers at a diplomatic mission to answer each of about 360,000 enquiries received annually from Canadian and foreign companies. The cost to assist a visiting delegation from Canada on a trade mission averages about \$6,000 at each diplomatic mission we visited. To this must be added headquarters costs, which include the cost of communications systems as well as the time of staff in Ottawa. This kind of cost information needs to be available to management as a means of monitoring the use of scarce resources, and also to the users of the service so that they know its cost to the taxpayer.

25.59 Foreign Affairs and International Trade and Industry Canada should use information on costs and fees received to help decide what products and services they should continue to offer; and, where relevant, this information should be given to users.

More Efficient and Responsive Service Delivery Needed

Trade officer time is spread thinly over many activities

25.60 In our visits to diplomatic missions, we asked over 50 Trade Commissioners posted from Canada and commercial officers who are locally engaged for one or two examples of how their work has resulted in improved exports. We also asked for examples of recent work that they thought might lead to future results — the type of service that was provided (counselling, networking, providing specific market intelligence)

We calculated that answering each trade enquiry received at a diplomatic mission costs about \$120.

Trade officers believe that they add the most value when they act as networkers and brokers.

and who made use of their contribution. We also asked how people spend their time, and we compared the results with data from the Trade Tracking System. Finally, we interviewed people from a selection of the firms that had been assisted, to verify the importance of the help provided.

25.61 In general, trade officers see themselves as adding the most value when they act as networkers and brokers and can make useful introductions to possible agents, joint venture partners, or distributors. In other words, even when an officer does not have a specific piece of market intelligence, he or she should know someone who does. Another valuable service is the use of their diplomatic status to obtain information from local government officials, or appointments with them. Less frequently, a Trade Commissioner or local officer might assist with reducing government barriers to access, such as a customs regulation, or may help develop a campaign to counteract protests against, for example, certain practices in the forest products or fur industry, which can negatively affect Canadian exports by giving rise to proposals to regulate or boycott Canadian products.

25.62 Since Trade Commissioners and officers are also managers of an important

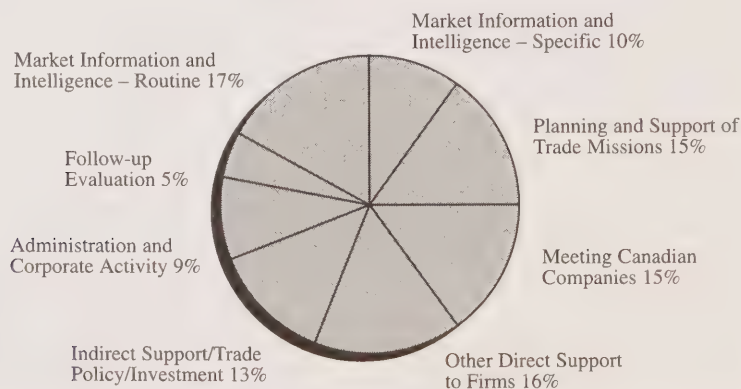
resource — their own time — it is important to know how they allocate this time. Officers at the missions we visited told us they spend about one quarter of their time answering enquiries; over half of this time involves responding to routine enquiries, some from clients who are not ready to export. Another 9 percent is spent on corporate and administrative activities. These figures are comparable with the Department's numbers from its Trade Tracking System (see Exhibit 25.7).

25.63 Most officers said they spend too much time at their desks. They also said it is less productive to deal with enquiries and requests from companies who are not ready to export, and with incoming missions from Canada that are not well prepared. They want to spend more time out of the office learning about their business sectors and the host country. As well, trade officers and their administrative assistants spend time making hotel reservations, arranging appointments for incoming business people and other government departments, and meeting them at the airport. While this can often be a valuable use of time, on other occasions it may be unproductive.

25.64 At International Trade Centres in Canada, commercial officers and Trade Commissioners perform tasks and offer

Exhibit 25.7

Trade Officers' Time Allocation – Missions Visited by OAG



Source: Responses to OAG Questionnaires

services similar to those offered overseas. They are the domestic side of the Trade Commissioner Service. They provide links with diplomatic missions overseas and information to Canadian business, and help foreign buyers and missions find Canadian partners and suppliers.

25.65 We conducted group meetings at five International Trade Centres with 42 Trade Commissioners and commercial officers. The results were similar to the results from diplomatic missions: officers are primarily reactive, both to requests from companies and to requests from headquarters in Ottawa. They would like to spend more time doing what they view as more productive — working with export-ready companies — and less time responding to requests from Ottawa on behalf of incoming missions or for administrative information, which they view as less productive.

Constraints to performance — entitlement to service

25.66 Are there constraints that inhibit trade officers from spending more time doing what they believe is more productive, and less time doing what is less productive? A major constraint, officers agree, is the tradition that everyone who wants export assistance is *entitled* to service free of charge. Because it is often up to individual officers to prioritize requests, some clients expect or receive higher levels of service than others. This is true both at diplomatic missions and at International Trade Centres in Canada. Although the federal government may want to focus on export-ready clients, in practice the client who is not ready to take advantage of the expertise of trade officers may, nevertheless, legitimately feel entitled to service. This sense of entitlement is likely reinforced by officers who do not believe

they have authority to establish what those requesting the service need to do before the service is rendered.

25.67 Officers also mentioned trade missions of business people and politicians. Some have high expectations about what will be provided free and, on occasion, with little lead time. The higher level of service they receive may be more because their expectations are higher than because they represent the possibility of a higher payoff for Canadian exports.

Implementation of service standards could address several problem areas

25.68 One way to deal with expectations is to have service standards. Service standards communicate in broad terms what clients should expect to receive. It is not necessary that service standards be completely uniform; they can be adapted to users as well as to the conditions in which the service is supplied. Several of the diplomatic missions and International Trade Centres we visited have set their own expectations for service to clients; Foreign Affairs and International Trade recently issued the “Trade Commissioner Pledge of Quality of Service”. This pledge indicates what services will be provided outside of Canada and at International Trade Centres. The Department informs us that since our audit was completed, 67 missions have adopted service standards. International Trade Centres also have plans to establish service standards.

25.69 At present, the lists of services supplied by diplomatic missions do not distinguish among levels of service, or between core services to be provided to all who qualify and those to be provided at an enhanced level, which might correspond to a strategic goal or a specific client need. International Trade Centres do not have a common list of basic core services.

Clients who are not ready to export may still feel entitled to service.

Exporters and public sector clients have an obligation to do their homework and to be prepared.

The variety in practices among trade officers can sometimes reduce overall performance and increase costs.

25.70 Service standards are a two-way street. Exporters and public sector clients have an obligation to do their homework and to be prepared. We observed that one diplomatic mission we visited uses a written “contract” between trade mission organizers and the diplomatic mission, stating the diplomatic mission’s expectations of the organizers, the costs to be borne by the organizers and, in turn, what the exporter can expect from the diplomatic mission. This includes a specific time frame for each party for actions to be taken and payments to be made. This statement of mutual expectations has helped each party to understand what services will be provided and what the obligations are of those receiving the service.

25.71 Foreign Affairs and International Trade should consider the use at all major diplomatic missions of contracts between clients and the Department.

25.72 Foreign Affairs and International Trade and Industry Canada should decide on the core services that will be available to all and how they will be provided, and on enhanced services and who will receive them.

Greater uniformity of other practices would enhance performance

25.73 The work of a Trade Commissioner varies enormously from individual to individual and from diplomatic mission to diplomatic mission. Each officer operates in his or her unique style, taking into account the local business environment. It is a job in which individual style and initiative are highly prized. The Special Insert on page 25–23 provides a sampling of activities from one important diplomatic mission, Tokyo. This diversity of approaches and relationships

means that it is especially important for management to have a framework for assessing whether particular tools, goals, and operating practices should be in common or should remain distinctive to a region or an individual.

25.74 We identified a number of areas in which the great variety in current practices reduces overall performance and can increase costs. We also observed some practices that were clearly superior to others. The following are examples of current practices that need to be addressed:

- **Follow-up.** Trade officers at posts sometimes send out long lists of Canadian companies in response to enquiries by foreign companies. The relevance or value of these lists is unknown, as there is little or no follow-up either at the diplomatic mission or at headquarters to find out if the information was useful and/or led to business with one of the listed Canadian suppliers. Similar comments apply to market studies and other information and intelligence. At the same time, we did observe several instances of follow-up by individual officers.

- **Transition packages for replacement officers at the end of a posting abroad.** Some Canada-based officers provide useful transition letters or packages for their successors. Others provide nothing at all, and the new officer must start from scratch. At only one of the missions we visited was the existence or quality of a transition package taken into account in the performance appraisal. Given the high cost of posting someone abroad, and the potentially large benefits of a well-informed officer, this lack of support is clearly wasteful.

- **Contact lists.** Lists of important business and government contacts developed by the trade officer at the mission ought to be part of the transition package. However, some officers, including locally engaged staff, appear to

view such lists as the property of the trade officer and not of the mission. The information may therefore not be available to others, including the trade officer's replacement. We did observe officers who treated the lists as a corporate rather than a personal resource, and who took steps to ensure that others had access to the lists.

- **Availability of market studies.**

Most market studies commissioned by posts are made generally available through the Infocentre in Ottawa; others are not. Whether those that are not generally available reach interested parties

depends on the quality of the trade officers' contacts.

- **Dealing with clients who are not export-ready or not adequately prepared.** Many of the officers are well equipped with information packages and questions for business people to address to help prepare them to export, so that the officers spend a minimum of time on enquiries that appear to be poorly conceived. This is an important practice, given that we encountered instances where a company sent essentially the same general inquiry to many overseas posts.

EXAMPLES OF HOW TRADE COMMISSIONERS' SERVICES MAY LEAD TO INCREASED EXPORTS

1. Intelligence and networking.

"Upon learning of an opportunity for the sale of prefabricated buildings to a major franchise restaurant chain in Japan, I put a Canadian company in touch with the Japanese company. Knowing they would need a Japanese partner to pull off such a deal, I then put the Canadian firm in touch with an interested major Japanese construction firm. Discussions among the three parties are continuing at this time. The prospect: some 30–40 restaurant buildings per year throughout Japan, commencing in 1996." (officer posted from Canada)

2. Networking. "A company manufactures products for fire fighting. Sales were disappointing and we helped them identify two new agents. Sales are expected to improve." (locally engaged staff)

3. Organizing missions from Canada and providing market intelligence. "We helped arrange a mission to Japan of potential exporters of a seafood product. We provided information on the market and arranged appointments. One company located in Tokyo and another in Hokkaido showed a strong interest in doing business with one of the Canadian companies. Sales are expected to begin

in the 1996 season." (locally engaged staff)

4. Interventions with other governments to improve market access. "Japan's Wagyu breed is known around the world for its role in the production of 'Kobe' beef. Canadian cattle producers wish to obtain access to Wagyu genetics to facilitate the production of marbled beef in Canada. Fearing increased competition for its domestic beef producers, Japan has to date refused to permit the export of Wagyu genetics to Canada. During the last 19 months I consistently lobbied the relevant bureaucratic and political officials to obtain an animal health protocol that would make possible the export of Wagyu genetics to Canada. Japan recently agreed to provide this approval and it is anticipated that the animal protocol will be signed in April 1996." (officer posted from Canada)

5. Arranging trade fairs. "We co-ordinated the Canadian presence at the Foodex '96 trade fair. The 25 Canadian companies that were represented on the stand reported anticipated sales of \$10.7 million during the next 12 months as a result of their participation in the show." (officer posted from Canada)

6. Answering inquiries and providing market information. "The Embassy received an enquiry from a Japanese firm interested in locating Canadian designers of ice-skating rinks. Nine companies were identified by the predecessor to the International Business Opportunities Center. A Canadian firm has received a contract for the engineering part of the project at US\$215,000. There is also a possibility for industrial refrigeration construction contracts." (locally engaged staff)

7. Obtaining information from foreign officials and arranging appointments. "A large Canadian engineering consulting firm asked for the Embassy's help to find out more information about a Japanese aid project in Peru on which it wished to bid. After providing the information, the Embassy then arranged meetings with Japanese officials for an executive from the company." (locally engaged staff)

8. Arranging seminars and fairs. "Each year I arrange 15 Canadian food fairs at hotels and restaurants. This program has greatly contributed to expansion of the exports of Canadian food products." (locally engaged staff)

Source: Questionnaire responses to OAG auditors, 1996., Trade Commissioners and locally engaged commercial officers at the Canadian Embassy, Tokyo

User fees and cost sharing would help ensure that resources are devoted to activities that business values.

25.75 In areas where more uniform practices would improve overall performance and quality of service, or result in greater efficiency, Foreign Affairs and International Trade should establish uniform practices and monitor compliance with them by trade officers. An evaluation of the implementation of these practices should be incorporated into the performance appraisal system for trade officers.

Cost Sharing and Fees for Services

Opportunities have not been fully realized

25.76 Opportunities for cost sharing and recovery and for charging user fees for products and services, while formally encouraged, are not fully realized. Practices vary among diplomatic missions and, indeed, within them. User fees and cost sharing are approaches that would help ensure that resources are not wasted on activities not valued by business. While there are good reasons to have flexibility, approaches should at least be based on a common set of guidelines and goals. We observed differences in approach among diplomatic missions but did not observe a common set of objectives for charging and cost sharing. For example, a company wishing to launch a product in Mexico would have been offered the facilities of the Canada Business Service Centre (up to 1996, when it closed) and would have paid a rate designed to recover the Centre's running costs. However, in Tokyo a company may be offered, free of charge, the use of the Embassy's theatre and reception facilities, which we were told might cost about \$25,000 in a commercial venue. We noted that one software company used this facility several times in a year. For receptions in honour of a company, and

for product launches, practices vary from event to event and from diplomatic mission to diplomatic mission. A typical practice is to bill a company only for reimbursement of the direct cost of a caterer and for duty-free liquor. Reimbursement is not sought for additional indirect costs, such as staff overtime.

Comparison of Canadian charging practices with those of other countries

25.77 Other countries charge for many export promotion services. For example:

- The United States "Gold Key Service" costs US \$500 for an officer to arrange a day of appointments. The United States also charges to fax market reports.
- Australia has hourly rates for consultations with trade officers, and a fixed rate for a full-service market introduction, including market studies, setting up appointments, making hotel reservations, etc.
- Britain charges for specific market studies.

25.78 Cost sharing does not necessarily require the Department to collect any money; practices vary. They can range from arrangements where companies pay all direct costs of an event or mission to arrangements where they pay only a portion, or perhaps none at all. An example is the Prime Minister's Team Canada missions, for which participants were expected to pay their own air fare and hotel bills.

25.79 In one case where there was a clear policy for a whole program, it was not followed in every instance. The Program for International Business Development is a cost-sharing program. Depending on a company's size and how often it has received financial support, the program policy indicates that companies

should pay between 33 and 100 percent of the incremental costs of the mission and trade fair — such as the cost of exhibit space. We observed several events where the cost share paid by the company was significantly lower than the percentage envisioned in the policy.

25.80 At International Trade Centres we found no policies on cost recovery or charging for services rendered, other than those in the PEMD program for cost sharing in trade fairs and missions.

25.81 Foreign Affairs and International Trade and Industry Canada should establish and implement a framework to guide their approach to cost recovery, cost sharing, and charging for export promotion services.

Export Promotion Is an Information Business

25.82 Two kinds of information are key. This first is internal management information, such as costs and performance data (paragraphs 25.46 to 25.59). The second is the *raison d'être* of many trade promotion activities, the acquisition and distribution of intelligence and information of direct value to business customers.

25.83 A challenge to providing highly pertinent information useful to business is that Trade Commissioners rotate into new positions every two to four years. Frequently they arrive in a country that they know from previous experience, and cover an industrial or service sector of which they already have knowledge. Sometimes, however, they are expected to acquire much of what they need to know after their arrival. A Trade Commissioner posted abroad needs to minimize the time it takes to become effective in a new posting. If a Trade Commissioner does not

speak the language fluently, or has little knowledge of the sector he or she is promoting, the time needed to “get up to speed” will be longer than by someone who already has this knowledge. These are matters that can be and often are dealt with in advance of the posting.

25.84 Trade Commissioners need to have, or have access to:

- information about distributors, possible joint venture partners, market trends in the foreign market;
- a good understanding of local customs, laws and government structure;
- good contacts with business and government in the host country;
- an understanding of the strengths and capacities of Canadian industry; and
- sources of relevant information and intelligence, including private sector sources outside government.

25.85 The capacity to acquire this knowledge efficiently is enhanced by previous knowledge and experience in a business sector. This knowledge is especially vital with the increasing emphasis on providing timely market intelligence to small and medium enterprises. However, we observed that in a few cases officers have been assigned to sectors where they had little or no previous knowledge or experience. Not only is this inefficient for the officer who has to get up to speed, but it may result in missed opportunities for Canadian business to obtain intelligence that an expert in the sector might have recognized.

25.86 Foreign Affairs and International Trade should ensure that before being posted to a large diplomatic mission at one of Canada's major trading partners, officers have sufficient knowledge or experience in

Because trade commissioners rotate into new positions every two to four years, they need to minimize the time it takes to get up to speed.

the business sector to recognize opportunities for Canadian business.

Corporate data and expertise complement individual knowledge

25.87 There is a wide variety of information sources available to trade officers and business. There are many Internet sources, including most notably the *Strategis* home page of Industry Canada. There are also faxback sources, information from Canada Business Service Centres, and the Department of Foreign Affairs and International Trade's InfoCentre. There are the Foreign Affairs and International Trade magazine *CanadExport* and a host of other publications. There are also many foreign sources, notably the National Trade Data Bank from the U.S. Department of Commerce and the Central Intelligence Agency country reports. All provide information and market studies of potential interest to exporters.

25.88 The main source used by trade officers for information on Canadian exporters/suppliers is the WIN Exports database. WIN is a computer database built and maintained by Foreign Affairs and International Trade. It lists companies that are interested in exporting, and their products. This listing is used heavily to help officers identify companies that may be able to take advantage of opportunities in overseas markets. The general perception is that, despite some problems with completeness and accuracy, the information is relatively reliable. The Department, in collaboration with Team Canada partners, is making efforts to expand the coverage of the database and make it more accurate; however, it does not have specific targets for either coverage or accuracy.

25.89 The usefulness of the database varies according to the skills and

knowledge of the user. At the missions, we asked for a retrieval of company information from WIN. No two missions retrieved exactly the same data. The fact that the results of database searches are user-dependent means that, depending on who is using the system, a company may or may not be identified as a potential supplier.

25.90 To increase the usefulness of WIN, the Department has given training courses to officers. However, at the diplomatic missions, where access to a full range of search tools is limited, successfully responding to an inquiry can be difficult. According to the Department, a skilled user of WIN can answer only 65 percent of enquiries using the database. Obviously, less skilled users will have a lower success rate.

25.91 To supplement the WIN database, and to ensure that important sales leads are forwarded to Canadian companies, Foreign Affairs and International Trade and Industry Canada, in collaboration with Team Canada partners, established the International Business Opportunities Centre. The quality of the responses is higher at this Centre than at the diplomatic missions because Canadian companies are first contacted to verify their interests, and there is subsequent follow-up. The International Business Opportunities Centre, an organization whose only task is to respond to enquiries about possible Canadian sources of goods and services, stands out as an organization with a clear direction and definition of how it will deliver its service. For example, it has set delivery standards for answering enquiries and has recently installed a case management system to track how well it is performing.

25.92 Foreign Affairs and International Trade and Industry Canada should assess the costs and

There are many information services outside government that supplement the knowledge of individual officers.

The WIN Exports database is heavily used to link Canadian companies to potential foreign buyers.

benefits to the overall Team Canada effort of providing answers at headquarters to sourcing enquiries received at diplomatic missions.

Need for a strategic information technology plan related to trade promotion objectives

25.93 We expected that trade officers would have information technology tools that permit them to provide these services in a timely and efficient way, and that existing and planned information systems thus would be aligned with the priorities of the Trade Program.

25.94 We found that Foreign Affairs and International Trade has made some advances in its use of information technology and continues to employ it in more sophisticated ways. However, the Department has not looked systematically at how it could use information technology and systems better to support its promotion of trade.

25.95 We have referred (in paragraphs 25.56 and 25.57) to the Department's plans for the adoption of the Client Tracking System, abandoning useful elements of the present system. This reflects deficiencies in the Department's strategic planning for information technology tools in support of international business development. A strategic plan for information technology should contain some basic elements: not only a detailed description of how the organization works and the direction in which it is going but also a management agreement on how change is to be effected. Having such a plan would signal that senior management supported information technology initiatives and was aware of their impact on the delivery of the Program. Such a plan for international business development would answer at least the following questions:

- How do we deliver our services?
How do officers actually do their work or deliver the Export Promotion Program?
How could they do it better with information technology and information technology services for the officers?
Perhaps different tools are needed for different locations.

- How should we implement information technology? For example, should we make or buy information technology?

25.96 Foreign Affairs and International Trade should develop information technology plans that are consistent with the strategic directions of the Trade Program. The plans should contain information on how services are going to be provided on a daily basis.

Conclusion

Issues raised in this report are similar to those we reported on 10 years ago

25.97 The Auditor General last reported on Canada's trade promotion efforts in 1986, specifically on the activities of the Trade Commissioner Service. Our current audit found a number of similar issues despite new trade agreements, particularly NAFTA and the Uruguay Round of GATT, and a virtual revolution in the use of information technology. Some of our concerns remain because they represent ongoing activities — the search for appropriate performance measures, for example, or the need in foreign missions to balance the numbers of locally engaged staff and the more expensive Canada-based staff posted abroad. Other issues have been addressed, to some extent, in the interim. For example, our recommendation that the departments involved in export promotion work more closely together has been realized in the last two or three years. Other observations of 10 years ago remain pertinent. For

Despite recent advances, there are deficiencies in the Department's strategic planning for the use of information technology.

example, we also noted then that the implementation of service levels would improve allocation of staff time and help the Department control costs better. Further, it is still true, as we told the Public Accounts Committee in 1987, “Cost recovery would not only increase revenues to the Crown but could provide a measure of the effectiveness of the service.”

25.98 We hope that in the follow-up to this audit we will be able to report that substantial progress has been made toward implementing the recommendations in this chapter — both those that are similar to our 1986 recommendations and those that reflect the changes of the last decade.

Department of Foreign Affairs and International Trade and Industry Canada's joint response: *The Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada acknowledge the constructive recommendations in the Auditor General's Report, and welcome its encouragement for the many improvements to the delivery of the International Business Development (IBD) program that we have been championing. Partnership with our domestic Team Canada partners has already increased our ability to effectively deliver the IBD program across Canada, as well as to make more optimal use of DFAIT's network of trade officers abroad.*

One of the driving forces behind the new “Team Canada” approach was the government's strategy to increase the number of active Canadian exporters, coupled with the need to devote more resources in Canada to ensure that DFAIT's trade development resources abroad are better utilized. Through partnerships with, and referrals to, the National Sector Teams and Regional Trade Networks, DFAIT is ensuring that trade officers abroad can redirect non-export-ready companies to competent

sources of assistance, while dedicating more of their time to prepared and qualified exporters. Technologies continue to be developed to connect these officers with Industry Canada and other Team Canada partner departments to enable better service to the exporting community.

During the 1997–1998 fiscal year, Team Canada departments and agencies will be operating under the government's directive to allocate their International Business Development resources through Canada's International Business Strategy (CIBS) for the first time. (Since CIBS activities are planned many months in advance, all IBD activities delivered in the field during the audit period could not have conformed precisely to CIBS). The use of CIBS as a resource allocation mechanism will improve during the coming year. First, DFAIT's IBD Resource Allocation Committee will link budgets to the lists of CIBS-approved initiatives. In addition, the National Sector Teams (NSTs) have been charged with monitoring the implementation of CIBS year-round, and reviewing significant reallocations of IBD program resources to ensure consistency with their sector strategies. Our departments recognized that the ambitious goal of using CIBS for interdepartmental resource allocation can be strengthened, and we will continue the constructive dialogue with our Team Canada partners to this end.

With respect to the recommendation in paragraph 25.45, the Department of Foreign Affairs and International Trade and Industry Canada are already accountable through their respective Main Estimates for their own contributions to achieving Team Canada goals. The two Departments are committed to leading the co-operative interdepartmental approach and, in this context, we will encourage our partner departments to delineate their individual contributions to the government's IBD efforts in their respective Main Estimates. In this way, each contributing department would

remain accountable for measuring its own progress in meeting the government's Team Canada International Business Development goals. The Minister for International Trade, in consultation with the Minister of Industry, would welcome the opportunity to supplement this information by providing to Parliament an overview of the government's progress in

achieving common International Business Development goals.

The Auditor General's Report serves as a useful blueprint for our respective departments' future quality improvement efforts. It also complements the government's new approach to the Team Canada partnership for International Business Development.



About the Audit

Objectives

The objectives of our audit were:

- to determine if arrangements for accountability, both to Parliament and within the government's export promotion activities, are appropriate;
- to assess the availability of information on costs, benefits, and revenues from export promotion activities; and
- to make recommendations that can lead to improved effectiveness and efficiency or to reduced costs of export promotion services.

Scope

This audit concentrated on the activities of Foreign Affairs and International Trade and of Industry Canada that are oriented toward promoting export sales of goods and services to foreign countries.

We examined how federal government activities for export promotion in particular, and international business development in general, are co-ordinated, prioritized, and reported. We looked at the government-wide initiative of Team Canada, particularly Canada's International Business Strategy as a vehicle to set priorities and reduce overlap.

We also looked at how services are delivered at diplomatic missions abroad, and at International Trade Centres in Canada. These services include counselling, provision of information and intelligence, and interventions with foreign government entities on behalf of Canadian companies. We did not look at tourism promotion.

We looked at systems and practices that support the goal of providing market information and intelligence to exporters. This support includes information technology and software, training, guidelines and policies.

We did not audit trade promotion activities of the other 21 federal departments and agencies involved in trade promotion, nor did we examine related activities such as trade policy formulation and trade negotiations within Foreign Affairs and International Trade. As a result, export financing is outside the purview of this report. However, the Export Development Corporation and the Canadian Commercial Corporation do undergo special examinations by this Office because of their status as Crown corporations. The examination reports are submitted to their respective boards of directors.

Criteria

Our expectations can be summarized as follows:

Information for Parliament — Accountability for Goals and Performance

- Parliament is informed about priorities, results, outputs, and government-wide expenditures for international business development activities, including export promotion activities.
- There is a clear definition of roles and responsibilities among the different players.
- There is a working mechanism for allocating trade promotion resources at a government-wide level.
- There are mechanisms to monitor and measure, to the degree possible, outputs and the achievement of intended results.

Service Delivery

- Services are provided in an efficient and cost-effective manner and reflect client needs. This means that unnecessary services are not offered, and officers use time in a productive way.
- Where standards or common policies or practices (charging of fees, standards of service to the public, expectations of performance from employees or for eligibility of service) would promote effectiveness, efficiency or economy, they are used. Superior practices are noted and rewarded.
- Departments know whether the information provided to clients is generally useful and valuable.
- Departments know the relevant costs of the services provided to exporters.
- This information is used to help determine how resources and services are allocated and whether charges should be made for services.

Approach

We conducted this work in Foreign Affairs and International Trade and in Industry Canada headquarters. As well, we visited diplomatic missions in five major export markets (United States, Japan, China, the United Kingdom and France) and two smaller markets (Costa Rica and Venezuela). We also visited five of the 11 International Trade Centres in Canada (Vancouver, Winnipeg, Toronto, Montreal, and Moncton). We sought information on the trade promotion services offered by Australia, the United States and the United Kingdom.

We administered questionnaires and conducted interviews with over 50 staff in the diplomatic missions we visited and conducted group interviews with a total of 42 trade staff at International Trade Centers in Canada. We reviewed relevant documentation and conducted interviews in headquarters.

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Report of the
Auditor General
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to the House of Commons

Chapter 27
The Canadian Intelligence Community –
Control and Accountability

November 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 27
**The Canadian Intelligence Community –
Control and Accountability**



November 1996

This November 1996 Report comprises 19 chapters, including “Matters of Special Importance”, as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients’ needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 27

The Canadian Intelligence Community

Control and Accountability

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Assistant Auditor General: David Rattray
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The Canadian Intelligence Community

Control and Accountability

Main Points

27.1 “Intelligence” refers to information that, in whole or in part, is not available from conventional sources, such as the print media. It requires having access to information collected by “secret”, or clandestine, means. Intelligence can contribute to informed policy analysis and decision making by the government, particularly in relation to foreign policy, trade and economic policy, defence policy and public safety.

27.2 Since the end of the Cold War, the scope and focus of intelligence activities have changed significantly. In addition to continuing needs for information on long-standing concerns, such as terrorism, the government now requires intelligence on many new issues; for example, the proliferation of weapons of mass destruction, transnational organized crime and economic espionage.

27.3 To obtain intelligence, the government relies on agencies that need the authority to use intrusive techniques and that must do much of their work in secret. Control and accountability arrangements, therefore, are critical from two perspectives: to balance the need to protect and promote national interests with the need to safeguard individual rights and freedoms, and to respond to growing expectations for all government organizations to be efficient and effective.

27.4 Our audit provides an overview of the Canadian intelligence community — those agencies and units that collect, analyze and report security intelligence and foreign intelligence and those that co-ordinate or review their operations. In addition, it informs Parliament about the nature, extent and functioning of control and accountability arrangements in the intelligence community.

27.5 Substantial arrangements for control and accountability are in place, and progress has been made in recent years in strengthening them. Although Parliament’s role is limited by the fact that the activities and performance of intelligence agencies cannot be subject to the same degree of public scrutiny and debate as other government organizations, several bodies external to government do provide scrutiny and review. The government provides direction to the community by setting priorities and co-ordinates its activities through the Privy Council Office. Procedures exist to provide for ministerial control and accountability in significant and sensitive areas of activity, and both the Canadian Security Intelligence Service and the Communications Security Establishment have plans, policies and procedures to guide operational activities. Finally, the Department of Justice plays an important legal control role.

27.6 There are opportunities, however, to improve control and accountability arrangements. Action in such areas, for instance, as strengthening leadership and co-ordination, measuring and monitoring community-wide performance, establishing broad ministerial directions and internal reviews within the departments of National Defence and Foreign Affairs and International Trade, and improving performance measurement in the Canadian Security Intelligence Service and the Communications Security Establishment will help the community respond to challenges arising from the changing intelligence environment, and to growing public expectations for improved control and accountability of all government institutions.

Introduction

Intelligence is an important function of government

27.7 Canada is a democratic, peaceful and prosperous country, deeply engaged in the international community. It is an active peacekeeper, an important member of many multilateral institutions, a global trader and a refuge for many from other, less fortunate, countries. Canada's intelligence community operates within this broad context by collecting, analyzing, assessing and disseminating to government decision makers information and advice that help to protect and promote Canadian interests.

27.8 Users of the intelligence community's product include ministers as well as senior officials of most departments and agencies — but particularly those concerned with foreign policy, trade and economic policy, defence

policy and public safety. Although the end of the Cold War has altered the range and focus of the intelligence community's efforts, it has not diminished the need for the government to collect, assess and disseminate intelligence — as the hypothetical examples in Exhibit 27.1 suggest.

27.9 The term "intelligence", as we use it in this chapter, refers to information needed by the government that, in whole or in part, is not available from conventional sources. The distinguishing characteristic of intelligence, therefore, is that it requires having access to information collected by "secret", or clandestine, means. Information gathered in this way can be used in either a raw or an assessed form. When assessed, such information is frequently interpreted in combination with other information available from conventional sources; for example, the print media. Both raw intelligence, and assessed intelligence that

Intelligence requires having access to information collected by "secret" means; it can make an important contribution to informed decision making by the government.

1. A bomb explodes in the United States, and a little-known group claims responsibility. The media speculate that the act is the start of a terror campaign. Is the speculation right? Does the terrorist group have members in Canada? If so, what are they up to here? Should protective measures be strengthened?
2. A violent coup attempt is under way in another country. Canadians working there are in danger. Should Canada undertake a risky and expensive evacuation? If so, where should the Canadian planes land? Are they likely to come under fire? Would negotiations with the coup leaders help?
3. A Canadian resident is identified as possibly involved in the planning, financing and arming of an international terrorist group about to commit a terrorist act overseas. What information can be provided to domestic and foreign law enforcement agencies to prevent the act? How quickly can the Canadian be fully identified? What action can be taken in Canada to prevent the collection and transfer of funds to the terrorist group? Can the arms be identified, disabled or interdicted without jeopardizing the source of the information?
4. Canada may be asked to contribute troops to a peacekeeping mission abroad. How stable is the situation on the ground? Would the peacekeepers' lives be at serious risk? How long will the mission likely last?
5. Political opponents to a regime in power in another country have an organized and significant presence in Canada. The government of that country uses its diplomatic personnel in Canada to identify, target and destabilize the group. Which diplomats are involved? Are Canadian-based supporters of the regime being used by the embassy to infiltrate the group? What is the potential for violence? How vulnerable are Canadian interests abroad to retribution by either pro- or anti-government sympathizers?

Exhibit 27.1

Hypothetical Examples of Issues Calling for Intelligence Support

Control and accountability arrangements must balance the need to protect and promote national interests with the need to safeguard individual rights and freedoms.

is objective and policy-neutral, can contribute to informed policy analysis and decision making by the government.

Secrecy is a valuable resource but involves some risks

27.10 To obtain information that others would deny or keep secret, the government must rely on intelligence agencies that need capabilities and authorities not available to other federal departments. Intelligence agencies not only must use intrusive techniques, such as intercepting communications, but also must have the legal power to use them. Furthermore, the agencies have to do much of their collection and analysis in secret. Secrecy is an invaluable resource for intelligence agencies, for if their sources and methods become known, the targets of their investigations will react to protect their secrets, and access to the intelligence may be lost.

27.11 The need for secrecy means that the activities and performance of intelligence agencies cannot be as transparent as those of other government bodies, or be subject to the same degree of public scrutiny and debate. For example, publishing information on the allocation of resources or the successes of intelligence agencies would risk revealing their capabilities and targets and, by doing so, might seriously compromise their effectiveness.

27.12 However necessary it may be, secrecy creates a scenario for the potential or perceived abuse of intrusive powers by intelligence agencies as well as the perception that inadequate attention may be given to obtaining value for the money spent. To obtain the benefits and avoid the risks, control and accountability arrangements must balance, and be seen to balance, the need to protect and promote national interests with the need to

safeguard individual rights and freedoms. At the same time, those arrangements need to ensure an appropriate focus on achieving desired results.

Different categories of intelligence

27.13 Although intelligence can be categorized in different ways, we deal with two standard categories in this chapter:

- Security intelligence is information about activities that could threaten Canada's security, such as espionage, sabotage, foreign-influenced activities or politically motivated violence. It is collected to help maintain public safety and protect national security.
- Foreign intelligence is information about the capabilities, activities or intentions of foreign states, organizations or individuals. It is collected to help promote as well as to safeguard national interests — including political, economic, military, scientific, social and security interests.

27.14 As these definitions show, the purposes and targets of the foreign intelligence and security intelligence collection functions differ; so too do the nature and extent of the risks to which they give rise. It is important that the control and accountability arrangements reflect these differences. Thus, for example, because of the intrusive nature of the powers of the security intelligence function, and the fact that they are executed in Canada (potentially against Canadians), the function requires strict controls to ensure that national interests are appropriately balanced against the rights of individual Canadians.

Canada's intelligence community comprises a number of organizations

27.15 The main components of Canada's intelligence community are shown in Exhibit 27.2 and described

briefly below. For the purposes of this chapter, we defined Canada's intelligence community as including the units of several departments, the agencies and other organizations that share the day-to-day responsibilities for collecting, analyzing and disseminating security or foreign intelligence, and those organizations that co-ordinate or review the operations of intelligence agencies. Parliament's role in relation to this community is discussed under **Observations and Conclusions.**

27.16 By convention, the Prime Minister has leadership in areas of fundamental importance to the national interest, such as foreign affairs and the security of the nation. The Prime Minister therefore provides direction on key intelligence policy issues. As Exhibit 27.2 shows, the Privy Council Office (PCO) supports the Prime Minister in his ultimate

responsibility for the security and integrity of Canada and related intelligence matters.

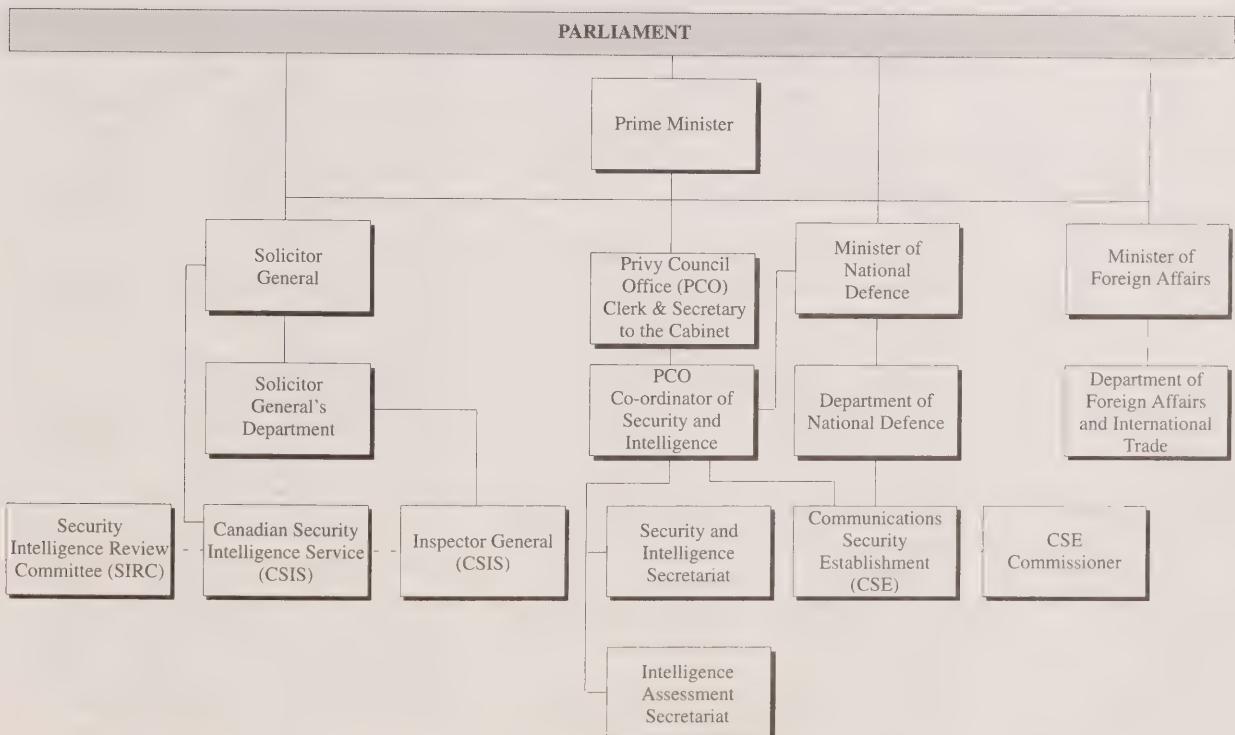
27.17 A senior official of the Privy Council Office, supported by the Security and Intelligence Secretariat, has a mandate from the Prime Minister to co-ordinate intelligence community activities. The PCO also houses the Intelligence Assessment Secretariat, which both assesses and co-ordinates the assessment of political, economic, strategic and security intelligence for the Prime Minister, the Cabinet, ministers and senior officials.

Collecting, analyzing and reporting security intelligence

27.18 Primary responsibility for collecting, analyzing and reporting security intelligence rests with the

Exhibit 27.2

Canada's Intelligence Community



Canadian Security Intelligence Service (CSIS), which was created as a civilian agency in 1984 by the *Canadian Security Intelligence Service Act* to replace the Royal Canadian Mounted Police Security Service. The Act assigns ministerial responsibility for CSIS to the Solicitor General and specifies a number of responsibilities for the Deputy Solicitor General.

27.19 Among other things, the Act mandated the creation of two independent bodies to review the activities of CSIS:

The Security Intelligence Review Committee (SIRC) is a non-parliamentary committee of Privy Councillors that reviews the performance by CSIS of its duties and functions and examines complaints concerning security clearances, immigration, citizenship and other matters involving CSIS investigations.

The Office of the Inspector General of CSIS is a review body, internal to the government but external to CSIS, that reviews compliance by CSIS with law, ministerial direction and operational policy. The Inspector General is responsible to the Deputy Solicitor General.

Canada's foreign intelligence needs are met from a variety of sources

27.20 Unlike most of its allies and competitors, Canada does not have an agency dedicated to gathering foreign intelligence abroad. More specifically, Canada does not have the equivalent of the United States' Central Intelligence Agency or the United Kingdom's Secret Intelligence Service. Instead, Canada's foreign intelligence requirements are met from a variety of sources.

27.21 The Communications Security Establishment (CSE), an agency of the

Department of National Defence, is one of the main organizations devoted to providing the government with foreign intelligence. CSE analyzes and reports on intercepted foreign radio, radar and other electronic emissions, referred to as signals intelligence (SIGINT), and provides this foreign intelligence to Canadian government clients. The Canadian Forces Supplementary Radio System (CFSRS) supports CSE primarily in its signals intelligence collection and analysis roles. In addition, CSE has access to allied SIGINT through reciprocal sharing agreements.

27.22 The Communications Security Establishment's other mandate is to provide technical advice, guidance and service to the government on the means of ensuring the security of federal government telecommunications and electronic data processing. This area is commonly referred to as INFOSEC.

27.23 The Chief of CSE reports to two deputy ministers: the Deputy Minister of National Defence for financial and administrative issues, and the Co-ordinator of Security and Intelligence (PCO) for policy and operational matters. Those two officials support the Minister of National Defence, who is accountable to Parliament for CSE.

27.24 On 19 June 1996, the government announced the appointment, under Part II of the *Inquiries Act*, of a Commissioner for the Communications Security Establishment. The Commissioner, who was appointed for a three-year term, is charged with reviewing the agency's activities to determine their compliance with the law and the Constitution of Canada. The Commissioner will report findings of an unclassified nature annually to the Minister of National Defence, who will table the report in Parliament. In addition, the Commissioner may at any

time report findings of a classified nature to the Minister.

27.25 The Minister of Foreign Affairs and the Minister of National Defence have primary responsibility for the conduct of Canada's foreign affairs and the defence of Canada respectively. As such, they require intelligence, as well as knowledge of intelligence activities, that supports informed policy and operational decisions consistent with their broad mandates. Under section 16 of the *CSIS Act*, CSIS can assist in the collection of foreign intelligence within Canada at the request of the Minister of Foreign Affairs or the Minister of National Defence. The departments of National Defence and Foreign Affairs and International Trade also collect information and intelligence from open sources or by means of exchanges with allied countries.

Resources allocated to the intelligence community have declined

27.26 We estimate that the components of the intelligence community identified in Exhibit 27.2 spent a total of approximately \$440 million in 1995–96. This represents a decrease of about 13 percent, in constant dollars, over the five-year period since 1990–91. Over this same period, the number of people employed (full-time equivalents) also fell by about 13 percent.

Some departments and agencies have close links with the intelligence community

27.27 Some departments and agencies — for example, the Royal Canadian Mounted Police, Citizenship and Immigration, Revenue Canada (Customs) and Transport Canada — though not components of the intelligence community as we have defined it, have close links with the community. This is because they

are significant users of the community's product in support of their specific mandates and, in some cases, may contribute information and intelligence to the community. Other departments and agencies that have important, specialized functions relating to the work of the intelligence community include the Federal Court, which issues warrants to CSIS to authorize the use of certain intrusive powers, and the Department of Justice, which provides legal advice to some key agencies and, through interdepartmental committees, to the community as a whole.

The intelligence community maintains relationships with other countries

27.28 Canada has close formal intelligence relationships with a number of countries. The closest of these were forged during World War II and solidified during the Cold War. Links remain particularly strong with the United States, the United Kingdom, Australia and New Zealand. Intelligence products, including analyses and assessments, are exchanged, and technical assistance is provided by each to the others. These, and other relationships, provide Canada with information and technological resources that would otherwise be unobtainable with current resources.

27.29 Because intelligence requirements of government decision makers relate increasingly to matters that are global or transnational in nature, the community's relationships with other countries are expanding. This is particularly the case in the area of security intelligence regarding such shared concerns as terrorism.

The intelligence environment has become more complex and volatile

27.30 For more than four decades following World War II, intelligence

The scope and focus of intelligence activities have changed significantly since the end of the Cold War. This has implications for control and accountability.

We examined the arrangements in place for the control and accountability of Canada's intelligence community.

activities were carried out in a fairly stable and predictable environment. Most of Canada's foreign and security intelligence efforts were focussed on Communist military and espionage threats.

27.31 The end of the Cold War, however, has not removed threats to Canada's security or national interests. In addition to many long-standing concerns such as terrorism, there are new issues facing the intelligence community — including ethnic and religious conflict, the proliferation of weapons of mass destruction, transnational organized crime, uncontrolled migration, and economic espionage. Other trends affecting the intelligence community include globalization of the economy and increasing competition, budget reductions forced by fiscal realities, and technological advances that help intelligence targets protect their secrets.

27.32 The changing environment has a number of implications for Canada's intelligence community. These include the need:

- to shift from one primary intelligence target to a broader, more diverse range of targets;
- to co-operate with intelligence agencies in a larger number of other countries;
- to serve a broader range of government clients with a growing variety of intelligence requirements;
- to invest in new technology that is required to maintain access to important intelligence sources;
- to have clear intelligence priorities that help guide decisions in a period of increasing diversity of targets and diminishing resources; and

- to continue to respect, and be seen to respect, the rights and freedoms of Canadians while effectively carrying out intelligence functions.

27.33 This more complex environment, and the nature and extent of change in it, highlights the need for co-ordination and clear direction. It also highlights the need for an effective control and accountability framework that focusses on the intelligence community's performance, as well as on its compliance with law and policy in carrying out its operations.

27.34 At the same time, growing demands that governments be more accountable for their actions, and for the results achieved with the use of public resources, have led to an evolution in public accountability in many areas of public administration. The intelligence community is not, and should not be, totally immune to these developments.

Focus of the audit

27.35 Our objectives were:

- to provide an overview of Canada's intelligence community and of the role of foreign and security intelligence in government; and
- to determine, and inform Parliament about, the nature, extent and functioning of the control and accountability arrangements in the intelligence community.

27.36 We examined the arrangements in place for the control and accountability of Canada's intelligence community. Our examination was carried out in the agencies and units that collect, analyze and disseminate foreign and security intelligence, as well as those that co-ordinate or review their operations (see Exhibit 27.2). Further details about our scope and approach are presented at the

end of the chapter, in the section **About the Audit**.

What we mean by control and accountability

27.37 “Control”, in the narrowest sense, means ensuring that specific procedures are followed. In the broadest sense, it means creating the conditions that lead to the achievement of agreed standards of performance, including desired results as well as compliance with law and policy.

27.38 Control may be exercised by a combination of informal means (for example, ethics, values and leadership) and formal means (for example, policies and procedures, funding, audit, review, authorizations, organizational structures and forums). Though we recognize the importance of informal controls and saw many examples of their operation in the intelligence community, our primary focus in this examination was on formal control mechanisms.

27.39 “Accountability” refers to a relationship based on the obligation to demonstrate and be responsible for performance in light of agreed expectations. There are a number of prerequisites for effective accountability:

- clear and agreed roles and responsibilities;
- clear and agreed performance expectations — including what is to be done (and how), what is not to be done, and what is to be achieved;
- performance expectations that are balanced by the relevant capacities (for example, authorities, skills and resources) of each party;
- credible and timely reporting to demonstrate the performance achieved in light of expectations; and

- review of and feedback on the performance reported, such that achievements are recognized and necessary corrections made.

Observations and Conclusions

27.40 The arrangements for control and accountability of the intelligence community comprise elements that, in whole or in part, are external to government, as well as some that operate entirely within government.

External Control and Accountability

27.41 By external control and accountability, we refer to the roles of bodies that are external to the government. This includes the role of Parliament as well as the roles of the Security Intelligence Review Committee (SIRC), the Commissioner for the Communications Security Establishment, the courts, the Privacy Commissioner, the Information Commissioner, the Canadian Human Rights Commission, the Commissioner of Official Languages and the Auditor General of Canada.

Parliament’s role in the control and accountability of the intelligence community

27.42 The nature and extent of Parliament’s role in the control and accountability of the Canadian intelligence community differs significantly among organizations. This difference originates largely in the enactment of the *Canadian Security Intelligence Service Act* in June 1984 (see Exhibit 27.3). Since that time, Parliament has played a more active role with respect to CSIS than with those components of the intelligence community that are engaged

Parliament has played a more active role in the control and accountability of the Canadian Security Intelligence Service than with the foreign intelligence components of the intelligence community.

primarily in collecting, analyzing and disseminating foreign intelligence.

27.43 The Canadian Security Intelligence Service. When Parliament adopted the *CSIS Act* and the *Security Offences Act* in 1984, it called for a comprehensive parliamentary review of their provisions and operation after five years. Accordingly, a special House of Commons committee was established in 1989 and reported its findings in 1990.

27.44 The special committee's report, "In Flux but not in Crisis", concluded that the basic scheme of the *CSIS Act* was working well. Nevertheless, the committee made a number of recommendations. Among other things, it sought to augment the role of Parliament by recommending the creation of a permanent subcommittee of the (then) House of Commons Standing Committee on Justice and Solicitor General to deal exclusively with security and intelligence matters, including agencies other than CSIS.

27.45 With few exceptions, the government of the day chose not to act on the committee's recommendations, arguing against structural change and noting that it was too early to open the Act

for amendment. It did, however, undertake to provide Parliament with more information and to arrange for another parliamentary review of progress in 1998. The former undertaking has been effected by the Solicitor General providing to Parliament, since 1992, an annual statement on national security, accompanied by the tabling of an annual public report of CSIS. Although such statements and reports are necessarily constrained in scope and detail by national security considerations, they nevertheless provide Parliament with the opportunity to consider security intelligence matters.

27.46 No permanent subcommittee for the review of security and intelligence matters has been established. In 1991, however, a Subcommittee on National Security was constituted as a subcommittee of the Standing Committee on Justice and Legal Affairs. This subcommittee has been reconstituted in each Parliament since then — most recently on 26 March 1996. The Subcommittee's mandate is defined by resolution of the Standing Committee on Justice and Legal Affairs. In broad terms, that mandate extends to reviewing the operations of CSIS and SIRC through, among other means, reference to SIRC's

Exhibit 27.3

The Canadian Security Intelligence Service Act, 1984

Following public disclosures of improprieties and offences committed by the Royal Canadian Mounted Police Security Service, a Commission of Inquiry, chaired by Mr. Justice D.C. McDonald, was appointed in July 1977 to inquire into and report on the Security Service's illegal and unauthorized activities. The Commission concluded that the inappropriate activities were attributable, in part, to the absence of a legislated mandate, as well as to limited government direction and control. In its 1981 report, the Commission recommended the establishment, under statute, of a civilian security intelligence agency accountable to Parliament through a responsible minister. It also recommended a comprehensive regime for direction, control and review.

The Commission's key recommendations were reflected in the *Canadian Security Intelligence Service Act, 1984*. The Act gives CSIS a clear statutory mandate regarding its duties, functions and powers (as well as limits on them) and sets out the roles of the Solicitor General, the Deputy Solicitor General, and the Inspector General as these relate to CSIS. The Act also provides for external review of CSIS by the Security Intelligence Review Committee (SIRC) and requires SIRC's annual reports to be tabled in both the Senate and the House of Commons. As well, it establishes a system of judicial control by requiring CSIS to obtain warrants from the Federal Court for the exercise of certain intrusive powers.

annual report, special reports made by SIRC under section 54 of the *CSIS Act*, the Solicitor General's annual statement on national security and the annual public report of CSIS.

27.47 Foreign intelligence

components. Parliament's role in relation to the foreign intelligence components of Canada's intelligence community has been limited. The foreign intelligence functions carried out by the departments of National Defence and Foreign Affairs and International Trade fall within the general ambit of the legislation setting up those departments. Although the standing committees on National Defence and Veterans Affairs and on Foreign Affairs and International Trade have potential interest in these functions, both committees have broader responsibilities and interests that have generally taken precedence.

27.48 Officials of the Communications Security Establishment have seldom been requested to appear before parliamentary committees. Their most recent appearance was in May 1995, when the Co-ordinator of Security and Intelligence of the Privy Council Office and the Chief of CSE provided the Standing Committee on National Defence and Veterans Affairs with a briefing on CSE. This briefing was the most comprehensive of its kind to date, and included information on such matters as CSE's programs, resources and relationships with foreign countries.

27.49 We noted earlier that CSE is a key player in gathering and producing foreign intelligence. The organization's mandate is based on the royal prerogative and the mandate of the Department of National Defence in section 4 of the *National Defence Act*, orders-in-council and other government directions. Its precursor, the Communications Branch of the National Research Council, was

established through an order-in-council in 1946. That branch was transferred to the Department of National Defence in 1975.

27.50 The Communications Security Establishment uses substantial public funds in carrying out intelligence functions that are important to the national interest, sensitive and potentially controversial. However, CSE's existence, its objectives, the scope of its functions, and the framework within which it should operate have not been publicly debated or endorsed by Parliament through legislation. We believe the government should consider the advantages of a legislative framework for this agency.

Estimates for Parliament do not provide specific details on all aspects of the intelligence community

27.51 In theory, Parliament has another potential window on the intelligence community through the scrutiny of Estimates and voting of funds. However, much of the information about the activities, expenditures and performance of the agencies and units carrying out intelligence functions is, of necessity, classified, and cannot be included in public documents. Moreover, only the funding for CSIS and SIRC are provided through separate votes. Funding for other components of the intelligence community is included in votes that do not relate specifically to intelligence functions and that do not clearly identify the intelligence components.

27.52 Most of the funding for CSE, for example, is provided through votes for the Department of National Defence operating and capital expenditures. The CSE's operating and capital budgets (\$84 million and \$29 million respectively in 1995–96) make up only a small proportion of the total operating and capital budgets of National Defence (\$7.5 billion and

\$2.7 billion respectively in 1995–96) that are visible to Parliament.

The intelligence community is subject to a range of other external scrutiny and review

27.53 As is the case generally with federal departments and agencies, the units and agencies making up the intelligence community are subject not only to the independent scrutiny of the courts but also to scrutiny and review by the Canadian Human Rights Commission, the Privacy Commissioner, the Information Commissioner, the Commissioner of Official Languages and the Auditor General of Canada. These review bodies can bring only their specific mandates to bear in carrying out their work. Moreover, the understandable restrictions that result from the need for secrecy place limits on their public reporting. However, our experience in carrying out this examination convinces us that the role of these review bodies in the control and accountability framework is important. As one example of the exercise of this role, the Privacy Commissioner recently completed an audit of CSE. He concluded that CSE operates in compliance with the *Privacy Act* and the principles of fair information practices. In his 1995–96 annual report, the Privacy Commissioner noted, among other things, that there is no evidence that CSE intentionally targets Canadians or monitors their communications, and that CSE uses strict procedures to minimize the possibility that information about Canadians will be inadvertently captured in monitoring foreign communications.

27.54 Although review by these external bodies provides for some public scrutiny of the intelligence community, and assists Parliament in holding it to account, that review is, of necessity, both intermittent and narrow in scope. In this

context, we note that until the recent announcement of a Commissioner for the Communications Security Establishment, the only body specifically designed for and assigned to the task of ongoing external review in the intelligence community has been the Security Intelligence Review Committee (SIRC).

The Security Intelligence Review Committee reviews and monitors CSIS

27.55 The Security Intelligence Review Committee is a permanent committee, established by the *CSIS Act*, of not less than three, and no more than five, Privy Councillors who are not sitting members of the House of Commons or the Senate. Committee members are appointed by the Governor in Council after consultation by the Prime Minister with the leaders of all parties having more than 12 members in the House of Commons. Members are appointed to a term not exceeding five years and may be reappointed for a second term. In 1995–96, SIRC had a budget of \$1.4 million and the equivalent of 14 full-time staff.

27.56 The Security Intelligence Review Committee has two distinct mandates: to provide external review of CSIS, and to examine complaints concerning security clearances, immigration, citizenship and other matters involving CSIS investigations.

27.57 The *CSIS Act* charges SIRC with reviewing generally the performance by CSIS of its functions and duties through a variety of means: for example, by reviewing directions issued by the Minister, arrangements of CSIS with domestic and foreign governments and agencies, reports by the Director of CSIS on operational activities, and the associated certificates of the Inspector General (see paragraph 27.93); and by compiling and analyzing statistics on operational activities. In addition, SIRC is

required to assess whether the activities of CSIS comply with the Act, regulations made under the Act, and ministerial direction, and whether they involve any unreasonable or unnecessary exercise of powers. To this end, SIRC can direct either the Inspector General or CSIS to carry out reviews of specific activities or it can carry out these reviews itself. In practice, SIRC has occasionally directed the Inspector General, but not CSIS, to carry out such reviews. For the most part, it has carried out the reviews itself.

27.58 The Security Intelligence Review Committee submits annual reports to the Solicitor General, who tables them in both the Senate and the House of Commons. At the request of the Solicitor General, or of its own volition, SIRC also prepares special reports for the Solicitor General. Although the Act does not require it, the Minister can choose to make these special reports public — as in the case, for example, of SIRC's December 1994 report on the Heritage Front affair. In effect, SIRC serves public accountability by reporting to the Minister, who is accountable to Parliament, as well as by reporting to Parliament itself.

27.59 Most observers agree that through an active program of review and monitoring, as well as through public reporting, SIRC has played an important role in strengthening the control and accountability of CSIS. Although we did not assess the quality of the review work carried out by SIRC, we did examine its nature and range. We found that in addition to responding to issues as they arise, SIRC has followed a systematic approach to reviewing, and reporting on as appropriate, those activities and operations of CSIS that give rise to the greatest risk of compromising individual rights and freedoms. These include, for example, authorizing targets for

investigation, preparing warrant affidavits, executing warrants, using intrusive powers of investigation and managing information — including its dissemination and retention.

27.60 The creation of SIRC was an innovative and unique response to the need to provide independent external review and a measure of public accountability for CSIS while avoiding the difficulties involved in making classified information regularly available to parliamentarians. The *CSIS Act* provides SIRC with full access to the information it requires to carry out its duties and functions, with the exception of Cabinet confidences. It is worth noting that SIRC has never been responsible for a known “leak” of classified information.

SIRC needs the confidence of Parliament to remain effective

27.61 In passing the *CSIS Act*, Parliament chose to create SIRC as an external review body rather than to establish a joint parliamentary committee on security and intelligence, as had been recommended by the McDonald Commission. We therefore believe that SIRC's continuing effectiveness hinges critically on having Parliament's confidence.

27.62 Unfortunately, relations between SIRC and members of the Subcommittee on National Security have become increasingly strained in recent years, as evidenced in the course of the Subcommittee's investigation of the Heritage Front affair and the June 1996 report on that investigation issued by the Standing Committee on Justice and Legal Affairs. We are concerned by the possibility that continuing strained relations with the Subcommittee could lead to an erosion of Parliament's (and the public's) confidence in SIRC to the point

Relations between the Security Intelligence Review Committee and members of the Subcommittee on National Security have become strained.

where its effectiveness would be compromised.

27.63 In view of the extraordinary powers available to CSIS, we believe that SIRC has a central role to play in the control and accountability framework for that agency. We therefore believe it important for the government to take action to improve relations. A possible first step could be to clarify the respective roles and responsibilities of the Subcommittee and SIRC in relation to each other.

The government has appointed a Commissioner for the Communications Security Establishment

27.64 The 19 June 1996 order-in-council authorizing the Minister of National Defence to appoint a Commissioner for the Communications Security Establishment sets out the Commissioner's mandate. In short, the Commissioner must review CSE's activities to determine whether they comply with the law. The Commissioner is to submit a report to the Minister each year on his activities and findings that are not of a classified nature. The Minister is required to table that report in Parliament. In addition, the Commissioner may at any time submit to the Minister a report containing classified information, and must advise the Minister and the Attorney General of Canada of any CSE activity he believes may not be in compliance with the law. The Commissioner was preparing to review CSE operations when we concluded our work.

27.65 We note that the Commissioner's mandate focusses entirely on compliance with the law, which is of paramount importance. We believe that the government has taken an important step toward enhancing CSE's public accountability by establishing, for the first

time, an external review mechanism for CSE. Among other things, the work of the Commissioner should increase the scope for informed parliamentary scrutiny and debate, including the question of whether it would be in the public interest for Parliament to consider creating a statutory basis for CSE.

Government Control and Accountability

27.66 We reviewed the arrangements for control and accountability within the government at three main levels: the role of the centre (including the Prime Minister, the Cabinet and the Privy Council Office (PCO)), the exercise of ministerial control and accountability, and control and accountability within CSIS and CSE.

Central direction and co-ordination

27.67 As already described, the Canadian intelligence community is dispersed among various departments and agencies that are independently funded and managed. The Prime Minister, the Cabinet and the Privy Council Office play key roles in directing and co-ordinating the intelligence community.

27.68 The Prime Minister is ultimately responsible for the integrity and security of the state and for related intelligence matters. There is currently no standing committee of the Cabinet to deal with security and intelligence issues. Ministers, however, generally meet once each year to deal with setting priorities and other major items.

27.69 The Prime Minister exercises his leadership role in respect to security and intelligence in part by chairing these meetings of ministers. The ministers who attend are those whose departments and agencies have primary responsibility for

The government has recently appointed a Commissioner for the Communications Security Establishment to review the agency's compliance with the law.

security and intelligence matters. The Minister of Justice also attends.

27.70 The Co-ordinator of Security and Intelligence in PCO is responsible for providing co-ordination to the security and intelligence activities of all Canadian government agencies and, through the Clerk of the Privy Council and Secretary to the Cabinet (the Clerk), advising the Prime Minister on security and intelligence matters. The Clerk, or in the Clerk's stead the Security and Intelligence Co-ordinator, supports the meetings of ministers on security and intelligence issues.

27.71 The Security and Intelligence Secretariat of PCO supports the Clerk in advising the Prime Minister on security and intelligence matters. In addition, the Secretariat assists the Co-ordinator, and itself plays a co-ordinating role within the intelligence community.

27.72 As described earlier (see paragraph 27.17), PCO also houses the Intelligence Assessment Secretariat (IAS). This is a central intelligence assessment unit that undertakes national intelligence assessments on matters related to Canadian foreign, defence and security policy. National intelligence assessments are interdepartmentally agreed assessments with a broad governmental perspective that cuts across departmental boundaries. The IAS undertakes its own analyses and also supports the Intelligence Assessments Committee (IAC). The IAC is an interdepartmental group, chaired by the Executive Director of the IAS, that co-ordinates and facilitates interdepartmental co-operation in preparing analytical and assessment reports to ministers and senior government officials.

Co-ordination is effected through interdepartmental committees

27.73 The Security and Intelligence Secretariat helps co-ordinate the work of the community through several interdepartmental and ad hoc, issue-specific committees that it chairs. In addition to the co-ordination that is effected through these committees, we believe that the committees provide a measure of informal control that results from sharing information and from discussing plans and operations among committee members.

27.74 The Interdepartmental Committee on Security and Intelligence (ICSI) includes the deputy heads of the departments and agencies directly and indirectly involved in security and intelligence matters. In practice, the executive subcommittee of ICSI is currently the most senior forum at the officials' level for regular consideration of security and foreign intelligence matters, and the primary interdepartmental mechanism for reviewing proposals and submissions to ministers. It also has responsibility for the management of resources to ensure that priorities are met by the various departments and agencies.

27.75 The Intelligence Policy Group (IPG) is the principal policy and operational co-ordination forum in the community. Its membership is drawn from the assistant deputy minister level in key departments and agencies of the intelligence community. It also includes the Assistant Deputy Attorney General (Criminal Law), who has functional responsibility for co-ordinating legal advice by the Department of Justice to the intelligence community.

27.76 Finally, there are a number of other interdepartmental committees and

working groups. These cover foreign intelligence as well as national security matters (for example, counter-terrorism). Their purpose is to provide support and co-ordinated advice to the committees of senior officials and to ministers.

27.77 Meetings of the various interdepartmental committees are held regularly and are generally well attended. There is a stability to the process, which is not crisis-driven. We were told by many of the participants that the quality and level of disclosure and communication in these meetings has improved significantly in recent years. We were advised, and saw some evidence to confirm, that co-operation and mutual reliance are generally reinforced by the ongoing communications.

27.78 Nevertheless, we noted some opportunities to strengthen further the leadership and co-ordination of what is already widely seen as a successful process. These include:

- increased senior-level guidance to, and review of, intelligence plans and products, with particular attention to the intelligence needs of the Prime Minister, the Cabinet and ministers;
- a more co-ordinated approach to dealing with intelligence services of other countries;
- a stronger focus on scrutiny of budgets and expenditures in relation to national intelligence priorities, in view of the current fiscal climate and ICSI's role in managing resources; and
- continued exploration of ways to strengthen the contribution, to the community's intelligence product, of some departments and agencies that are not within the intelligence community as such (for example, the departments of Citizenship and Immigration, Revenue

Canada (Customs) and the Royal Canadian Mounted Police).

The government sets direction for the intelligence community by establishing priorities

27.79 The government has approved national priorities, generally annually, for security intelligence and for foreign intelligence. These priorities take into account, for example, the government's foreign and defence priorities, and changes in the national security environment. They identify the subjects, countries, groups and organizations on which the Canadian intelligence community is expected to contribute information of national interest and value. The purpose of setting national priorities is to direct the collectors of intelligence and guide the assessors in their efforts over the coming year.

27.80 The differences between security intelligence and foreign intelligence influence the approach to setting national priorities. As the main security intelligence agency in Canada, CSIS has a mandate to advise the government on threats to national security. As a result, CSIS's priorities and subsequent collection activities are inevitably based largely on requirements that it has identified. Foreign intelligence collection, however, is driven by the need to support government policy.

27.81 The articulation of national intelligence priorities is a relatively recent phenomenon. In 1987, *People and Process in Transition: Report to the Solicitor General by the Independent Advisory Team on the Canadian Security Intelligence Service* (the Osbaldeston report) recommended that Cabinet consider annually a CSIS overview of the threats to Canadian security and approve broad national security intelligence

The government sets direction for the intelligence community and co-ordinates its work. Opportunities exist to strengthen further the central leadership and co-ordination of the community.

priorities that the Solicitor General would then issue to CSIS. The first security intelligence priorities were issued in 1989.

27.82 Foreign intelligence priorities were first developed in 1991 to respond to the dramatic changes in the world environment. The Privy Council Office, in consultation with the departments of National Defence and Foreign Affairs and International Trade, takes the lead role in developing the annual foreign intelligence priorities. This activity also involves the principal collectors of intelligence within the federal government, meeting as working groups under PCO's leadership. With respect to both security intelligence and foreign intelligence priorities, there is interdepartmental consultation, review of draft priorities by PCO-chaired interdepartmental committees, ministerial input, and Cabinet approval through the meetings of ministers described above (paragraphs 27.68 and 27.69).

27.83 The government is seeking ways to improve the priority-setting process. Until recently, for example, some government departments that are major clients for foreign intelligence had no opportunity to outline their requirements as input to setting the priorities. In 1995, PCO began to consult a group of client departments when developing the foreign intelligence priorities. It is now taking steps to develop and systematize the consultations for future rounds.

27.84 We believe there are further opportunities for improvement that the government might consider as the process evolves. First, consideration needs to be given to clearer tasking against the foreign intelligence priorities. This could include determining the proportion of effort that should be allocated to various priorities, as well as seeking more co-ordination and

up-front agreement on which agencies will do what in responding to them.

27.85 Second, final approval of both foreign and security intelligence priorities has sometimes occurred late in the year to which the priorities are to apply. If government direction is to be meaningful, we believe every effort needs to be made to ensure timely approvals. Finally, although efforts have already been made to enhance the usefulness of the priorities as guides to collection and assessment, further consideration could be given to refining the ranking of the priorities at all levels.

27.86 The intelligence agencies use the national priorities as a framework to help in setting their collection plans. A limited analysis by one agency noted evident gaps between what foreign intelligence priorities call for and what is or can be done in collection and assessment. This raises questions about the extent to which collection fully covers the foreign (and security) intelligence priorities, and the capability of the community to respond to them.

27.87 The government, however, has not assessed actual collection against priorities and identified gaps for the community as a whole. Therefore, it is not in a position to know the extent to which the foreign and security intelligence collected responds to the priorities established at a government-wide level, the reasons for any significant differences, or whether resources are used to best advantage. Among other things, this kind of information would be of value to the Interdepartmental Committee on Security and Intelligence in its role of managing resources to help ensure that priorities are effectively pursued. The Privy Council Office recognizes the need and plans to take action during the coming year.

A process for monitoring community-wide performance, integrated with the government's priority-setting cycle and its management of resources, is required.

No regular measurement of community-wide performance

27.88 Although there is no regular measurement or review of community-wide performance with respect to results, over the past two years the government has carried out an internal review of the intelligence community and developed a long-term plan. As one element of the review, deputy ministers asked that foreign intelligence programs be reviewed in terms of their relevance and adequacy in meeting current and future Canadian user needs, and that they be placed in priority order relative to their effectiveness.

27.89 In response, a number of conclusions on the coverage, timeliness and relevance of foreign intelligence collection programs were reported to deputy ministers and ministers, and used in formulating the long-term plan. These conclusions were based on some consultations with client departments, discussions within the community, review of limited data, and a descriptive review of the mandate and activities of the foreign intelligence collection programs. In our view, a more rigorous evaluation would have been needed to support the conclusions reported.

27.90 We recognize that there are significant limitations and challenges when evaluating intelligence collection programs. Nevertheless, in our view, further evaluation is possible and is needed to answer, with greater confidence and reliability, the questions initially raised by deputies concerning the relevance, adequacy and effectiveness of foreign intelligence collection programs. In addition to those questions, other performance-related questions about security and foreign intelligence collection, as well as assessment, remain

to be answered by evaluation. These questions include the following:

- Does the intelligence product adequately serve the needs of the government — particularly the needs of the Prime Minister, the Cabinet and ministers?
- Does the intelligence product adequately serve the needs of client departments and agencies?
- Do burden-sharing arrangements work effectively?
- To what extent is there duplication among various intelligence products and are there opportunities to streamline the process?

27.91 A process for monitoring community-wide performance, integrated with the government's priority-setting cycle and its management of resources, would help to address these and other questions on an ongoing basis. It would serve to assess effectiveness and efficiency where feasible, identify gaps in meeting user needs, identify opportunities for co-operation and burden sharing within the community and with allies, and identify areas of duplication or overlap. A committee of senior officials of client departments might be of value in helping to assess performance and in providing guidance.

Ministerial control and accountability

27.92 Because security considerations impose limits on the extent of parliamentary scrutiny of the intelligence community, it is especially important for the ministers concerned to have the information and the support they need to discharge adequately their fundamental democratic responsibility and accountability. To this end, we expected that ministers would provide policy direction, authorize sensitive operations and be appropriately informed of

performance. We also expected that ministers would have assurance, either from internal or external review mechanisms, that operations remain within prescribed legal and operational policy limits.

The Minister's role with regard to CSIS is defined in legislation

27.93 In the case of CSIS, where the Minister's role is defined in legislation, the following processes are in place:

- **Ministerial direction.** The *CSIS Act* provides that the Minister may issue direction, including written direction, to CSIS. The power to issue written direction has been used extensively, and formal ministerial direction now covers a wide range of subjects. These subjects include, for example, the statutory duties and functions of CSIS, investigative methods and techniques, the negotiation of co-operative arrangements with domestic and foreign organizations, and arrangements to assist CSIS's accountability to the Minister. The Minister also uses the Cabinet's Record of Decision on security intelligence priorities to issue related written direction to CSIS. This ministerial direction on priorities, however, has sometimes been issued late in the process. We believe that issuing it on a timely basis reinforces ministerial control and accountability.

- **Authorizations.** The Minister's responsibility for approving important matters is established in the *CSIS Act* as well as in subsequent ministerial direction. The Minister personally approves assistance by CSIS to the Minister of National Defence or the Minister of Foreign Affairs in the collection of foreign intelligence in Canada, all applications for judicial warrants for the exercise of certain intrusive powers, arrangements of CSIS with other departments, agencies and governments, and a variety of other sensitive operations.

- **Reports and briefings.** As required by the *CSIS Act*, the Minister receives periodic (in practice, annual) reports on the operational activities of CSIS, as well as reports of instances of possible unlawful conduct by CSIS employees in carrying out the agency's duties and functions. In addition, CSIS provides written and oral briefings to the Minister on a continuing basis.

- **Independent review.** The Minister's role is supported by the work of the Security Intelligence Review Committee (see paragraphs 27.55 to 27.60) and, more directly, by the work of the Inspector General of CSIS. The Inspector General, who is responsible to the Deputy Solicitor General, has been described as the "ministry's eyes and ears" on CSIS. For 1995–96, the Inspector General had a budget of about \$900,000 and the equivalent of 10 full-time staff. The Inspector General monitors CSIS's compliance with its operational policies, reviews its operational activities, and submits certificates to the Minister with respect to CSIS reports on operational activities. A certificate states the extent to which the Inspector General is satisfied with the report and brings to the Minister's attention anything done by CSIS that, in the Inspector General's opinion, is not authorized by the Act, contravenes ministerial direction or involves an unreasonable or unnecessary exercise of CSIS's powers.

Effective working arrangements between the Inspector General and CSIS are essential for maximizing the benefits of independent review — from the point of view of the Minister as well as CSIS. During the audit we noted that there have been some difficulties in this regard. We were therefore encouraged when the Solicitor General recently set out expectations regarding the process and products of the Inspector General's work and introduced a formal framework for ongoing consultations involving the

Ministerial control and accountability for the Canadian Security Intelligence Service are active, regular and well supported.

Inspector General and CSIS, as well as the Department of the Solicitor General. These working arrangements will need to be monitored to ensure that they achieve their intended results.

- **Departmental support.** The *CSIS Act* assigns a number of specific responsibilities to the Deputy Solicitor General. These include advising the Minister on ministerial direction issued to CSIS, and being consulted by the Director of CSIS on operational policies and before CSIS applies to the Federal Court for a judicial warrant. In practice, it is the National Security Directorate of the Department of the Solicitor General that carries out the day-to-day staff work involved in supporting the statutory role of the Deputy Solicitor General and, thereby, the Minister. In addition, the Department of Justice maintains a legal services unit in the Department of the Solicitor General.

27.94 Based on our review of the framework established by the *CSIS Act* and the manner in which it has been implemented, we concluded that ministerial control and accountability for CSIS are active, regular and well supported.

Opportunities exist to further strengthen ministerial control and accountability for foreign intelligence functions

27.95 The Minister of Foreign Affairs and the Minister of National Defence are responsible for the intelligence-related activities undertaken by their respective departments and are accountable to Parliament for them. Intelligence functions are not covered in specific terms, but fall within the general ambit of the enabling legislation for these two departments:

- The *Department of Foreign Affairs and International Trade Act* gives the

Minister responsibility for the conduct of foreign affairs.

- The *National Defence Act* requires the Minister to manage and direct all matters relating to national defence.

27.96 We were told that both ministers, upon appointment, receive thorough briefings from departmental officials concerning the roles and functions of intelligence in their departments (particularly as these relate to the broader Canadian intelligence community), current operations and priorities, and major accomplishments. Where appropriate, the ministers visit the intelligence units to get a better first-hand knowledge. Thereafter, the ministers receive periodic briefings, particularly in relation to emerging critical events, new initiatives, or operations requiring their review and approval.

27.97 To provide a framework for the control and accountability of intelligence functions in these departments, we expected that there would be broad directives, approved by ministers, on the means by which ministers would exercise control, exact accountability from officials and be in a position to render it to Parliament. Although such directions do not exist at a general level, in specific key areas — such as the process whereby the Minister of Foreign Affairs or the Minister of Defence can (pursuant to section 16 of the *CSIS Act*) request and receive the assistance of CSIS in the collection of foreign intelligence in Canada — there are such documented directions, approved by ministers, setting out the procedures to be followed.

27.98 In addition, it is normal government practice for ministers to be consulted on all important matters relating to their portfolios. Our interviews and file reviews showed that the ministers are indeed briefed about, and asked to

Opportunities exist to further strengthen ministerial control and accountability for foreign intelligence functions.

approve, significant and sensitive activities and operations.

27.99 We found, however, that there have been no internal or external review processes to provide systematic assurance to the ministers that control and accountability arrangements are working effectively. Until the recent appointment of the Commissioner for the Communications Security Establishment, there were no mechanisms dedicated to review on the foreign intelligence side. The work of the Commissioner for the Communications Security Establishment can be expected to help the Minister of Defence significantly with his responsibility and accountability for CSE.

27.100 We believe that for the other intelligence functions carried out by the Department of National Defence, and those carried out by the Department of Foreign Affairs and International Trade, the articulation of broad directives — covering matters such as objectives, the scope and limits of intelligence functions, relationships with other agencies, the criteria for activities and operations that require ministerial approval, and formal reporting requirements — would further strengthen ministerial control and accountability. Among other things, such directives would provide bases for periodic assessments of performance and compliance by internal review, with summary reporting to the respective minister as appropriate.

Control and accountability in CSIS and CSE

27.101 We expected to find that operational plans in both CSIS and CSE would set out intelligence requirements that, among other things, take into account the national intelligence priorities approved by the government. We also expected that the agencies would have

clear policies and procedures designed to guide activity toward the achievement of desired results and to address risks, and that they would seek assurance from review mechanisms (internal or external) about the framework and functioning of controls. Finally, given that information is the lifeblood of any control and accountability framework, we expected that the agencies would gather, use and report information on their performance.

National intelligence priorities provide a framework for agency plans

27.102 As described in paragraphs 27.79 to 27.83, national priorities for both security and foreign intelligence are established to guide collection and assessment. Because CSIS has primary responsibility for security intelligence, and therefore has to be self-tasking in some measure, it is instrumental in shaping the national priorities for security intelligence. Its plans, therefore, largely put into operation the national priorities.

27.103 In CSE, we found that the national priorities provide a framework within which the agency sets its own plans. CSE's plans for the collection of signals intelligence are influenced by several factors, including its mandate and capabilities. In addition to the national priorities, CSE takes into account the ongoing requirements of its direct public sector clients. The availability of financial, human and technological resources also influence what can be collected and processed.

Operational policies and procedures in CSIS and CSE are clearly set out

27.104 Both CSIS and CSE have comprehensive policies and procedures to guide their operational activities. In CSE, the policies and procedures are internally derived and have been neither explicitly requested nor approved by the responsible

Clear policies and procedures exist in the Canadian Security Intelligence Service and the Communications Security Establishment to guide operational activities.

Measuring results is inherently difficult, but important.

minister. In CSIS, many of the policies and procedures respond directly to provisions of the *CSIS Act* or to ministerial direction. Examples include the procedures for approving targets for investigation and preparing applications for Federal Court warrants.

27.105 The policies and procedures of CSIS, and compliance with them, are subject to ongoing monitoring and review by the Inspector General as well as the Security Intelligence Review Committee. CSIS also undertakes internal audits. In view of the work of the Inspector General and SIRC, these audits focus mainly on administrative and operational support matters.

27.106 We found that CSE has annually reviewed its operations as they relate to safeguarding the privacy of Canadians. Although some internal reviews have been carried out to identify opportunities for improving operational efficiency and effectiveness in CSE, there have been no systematic reviews or audits of compliance with operational policies and procedures. We are encouraged to note, however, that the agency is in the process of gearing up to review annually its compliance with internal policies.

Measuring performance is difficult but remains important

27.107 The results — and particularly the ultimate effects — of intelligence collection, assessment and reporting are inherently difficult to measure. We recognize that this is especially true in the case of security intelligence, which does not always result in a definable product. Nevertheless, we believe there is a minimum that is feasible to measure, including the nature, extent and cost of activity in relation to national and agency priorities and plans, user satisfaction with

intelligence products and, in some cases, identifiable impacts.

27.108 In CSIS, assessments of threat and risk directly affect the deployment of its resources. However, there is little tracking of the total costs or outputs of activities in relation to plans or priorities. As part of managing its programs, CSIS seeks feedback on its products, but the feedback is not systematically gathered, analyzed and summarized to identify client satisfaction and other performance trends.

27.109 The Communications Security Establishment maintains an extensive customer relations program to support federal departments and agencies that use its products. As that program has evolved over the past few years, so too has CSE's interest in performance measurement. The agency has made an effort to cost its products and identify gaps in its collection of signals intelligence in relation to national priorities and specific client requirements. It maintains a broad base of information on client satisfaction with its intelligence products and also compiles information on the impact of products on decision making. Improvements are currently being pursued to reduce the level of subjective measurement and increase direct client feedback on CSE's performance.

Role of the Department of Justice

27.110 We found that the Department of Justice exercises an important legal control with respect to the intelligence community. It does this with the help of a specialized National Security Group at Justice headquarters that provides legal advisory services to the Privy Council Office on security and intelligence matters and is responsible for developing co-ordinated legal advice within the Department of Justice. In addition, the

Department of Justice maintains an overview of the intelligence community by membership on the key co-ordinating committees chaired by the Privy Council Office.

27.111 It is noteworthy that Justice legal counsel in both CSIS and CSE have clearance for and access to all levels of information in those agencies. This allows counsel to be members of senior management committees in both agencies and to be integrated into operational decision-making processes on a proactive basis. They are asked to advise on the legality of proposed activities as well as to review ongoing activities to determine whether they are being conducted in compliance with the law.

27.112 In CSIS, for example, counsel from the legal services unit sit on the Target Approval and Review Committee as well as on the Warrant Review Committee. In addition, all warrant applications are reviewed by an independent counsel. This counsel is supplied by the Department of Justice.

Conclusion

27.113 Substantial arrangements for control and accountability are in place, and progress has been made in recent years in strengthening them. We concluded, however, that there are opportunities to build on that progress. Those opportunities include:

- strengthening leadership and co-ordination through increased senior-level guidance to and review of intelligence plans and products, greater scrutiny of community budgets and expenditures in relation to national intelligence priorities, a wider scope of contribution to the community's intelligence products, and a more co-ordinated effort in dealing with intelligence services of other countries;

- enhancing the national priorities process through clearer tasking against priorities, more timely approvals, a more complete ranking system and systematic assessment of intelligence collection against approved priorities;

- integrating the measurement and monitoring of community-wide performance with government priority setting and resource management;

- improving relations between the parliamentary Subcommittee on National Security and the Security Intelligence Review Committee. A possible first step could be to clarify respective roles and responsibilities in relation to each other;

- establishing broad ministerial directives and internal reviews within the departments of National Defence and Foreign Affairs and International Trade to define and provide assurance on such matters as the scope and limits of intelligence functions and relations, as well as requirements with respect to authorizations and reporting;

- considering the advantages of a legislative framework for the Communications Security Establishment in view of the significance, sensitivity and cost of its operations; and

- improving the measurement and assessment of performance in the Canadian Security Intelligence Service and the Communications Security Establishment.

27.114 We believe that improvement in these areas will help the community to cope with the challenges arising from the changes in the intelligence environment and in the public sector generally. It will allow the community to continue to respond to growing public expectations for improved control and accountability, with consideration of compliance with law and policy as well as effective and efficient operations.

The Department of Justice exercises legal control with respect to the intelligence community.

Intelligence community's response:

This was an unprecedented audit that posed significant challenges for the intelligence sector and the Auditor General's Office, particularly in light of the necessary secrecy of the intelligence business. The intelligence community wishes to thank the Auditor General and his staff for the professional approach they took to this audit.

The intelligence community finds the Auditor General's observations both valuable and constructive. We are keenly aware of the importance of responding to public expectations regarding control and accountability. We therefore note with satisfaction the main finding that substantial control and accountability arrangements are in place and continue to be strengthened. We are also pleased that the audit acknowledges the effectiveness, in terms of control and co-ordination, of

the interdepartmental committees that deal with intelligence.

We believe that the description of the Canadian intelligence community will serve to raise the awareness of Canadians as to the value of intelligence in support of Canada's national interests, and the challenges the community has faced since the end of the Cold War.

The Auditor General's suggestions that the intelligence community strengthen central leadership and co-ordination and enhance the national intelligence priorities process coincide with our own objectives. Indeed, the development of clear priorities to guide intelligence collection and reporting efforts is more important than ever, given that the Canadian intelligence community has more consumers interested in more topics, while, at the same time, it has fewer resources to do the job.



About the Audit

Objectives

Our objectives were:

- to provide an overview of Canada's intelligence community and of the role of foreign and security intelligence in government; and
- to determine, and inform Parliament about, the nature, extent and functioning of the control and accountability arrangements in the intelligence community.

Scope

We examined the arrangements for the control and accountability of Canada's intelligence community. More specifically, we examined the nature and extent of co-ordination and direction given to the intelligence community, the availability and reporting of information on results and on compliance with law and policy, and the existence and operation of mechanisms for control. We did not audit the operational activities of the intelligence community; nor did we assess the quality of financial management and control, or try to assess the value of the results obtained for the resources committed.

We carried out our examination in the agencies and units that collect, analyze, assess and disseminate foreign and security intelligence, as well as those that co-ordinate or review their operations.

Approach

We completed a preliminary survey, based largely on interviews and document analyses, to learn about the intelligence community and determine a scope for the examination phase. During the examination, we carried out additional interviews, document analyses, and file and other reviews. As well, we examined how control and accountability of intelligence communities are exercised in some other democracies.

Our examination has been the first of its kind in Canada and, as far as we know, no legislative audit offices in other countries have yet undertaken similar work. In view of the newness, sensitivity and complexity of the examination, we could not have done it without the special co-operation and help we received from all levels of management and staff of the intelligence community.

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